S. Hrg. 98-607 Pt. 1

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 6237/S. 2793

AN ACT MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1985, AND FOR OTHER PURPOSES

Printed for the use of the Committee on Appropriations

PART 1—(Pages 1-1199)

Agency for International Development
Department of State
Department of the Treasury
Export-Import Bank of the United States
Inter-American Foundation
Nondepartmental Witnesses
Peace Corps

U.S. GOVERNMENT PRINTING OFFICE
31-587 O WASHINGTON : 1984

S181-17

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 1, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:40 a.m., in room SD–226, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Hatfield, D'Amato, Rudman, Specter, Inouye, Johnston, Leahy, and DeConcini.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY:

- **WILLIAM SCHNEIDER, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE, AND TECHNOLOGY**
- **PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT**

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. This morning we will begin our regular budgetary hearings on the administration's foreign assistance request for fiscal year 1985, and hear testimony on the fiscal year 1984 supplemental request.

The Honorable George P. Shultz, the Secretary of State, is our witness this morning, and he will provide us with an overview of the foreign assistance program.

Mr. Secretary, we have been fortunate in that this subcommittee has worked hard to preserve a bipartisan approach to foreign policy matters. Even though we have had difficulty getting a regular foreign assistance bill through Congress, we have been successful in providing a foreign assistance bill in the continuing resolution.

As you are no doubt aware, it is the intention as expressed by our full committee chairman, Senator Hatfield, that the Appropriations Committee proceed with all speed this year because we have so few legislative days available. Therefore, we have compressed our schedule this year and hope to complete the regular hearing process of this subcommittee before the end of March.

CENTRAL AMERICA

There will no doubt be questions today on the Central American portion of the administration's request. However, I want the members of the subcommittee to know that it is my intention to hold a special hearing on the Kissinger Commission report and the legislation which has been submitted as a result of that report after we finish our regular budgetary hearing process.

I would, therefore, suggest to my colleagues that although they may want to ask questions about Central America, they might also want to concentrate on other areas as we will have ample time to question Commission members, and probably Deputy Secretary Dam, who I understand has been given overall responsibility for the Central American initiative.

Mr. Secretary, you have had an enormous responsibility to shoulder in the last several months, and I want you to know those of us who are working with the complexities of the issues that you must deal with, appreciate the way that you have dealt with these responsibilities, and the fine manner in which you have represented our country. I am sure that all of us will have some tough questions today, but you should know that you have our highest respect, and we want to be helpful as you carry out your duties.

Mr. Secretary, your written statement will be inserted in the record. We will as usual, considering the turn out of members on the subcommittee, work on the light system so that each member may have equal time for questions. I know the time is short, and we appreciate your being here, and we look forward to your testimony.

OVERVIEW OF CARLUCCI AND KISSINGER COMMISSIONS

Secretary SHULTZ. Thank you, Mr. Chairman. I appreciate your willingness to have my full statement placed in the record. Following our discussion, and knowing that there are several other hearings members wish to go to, I won't even read my so-called reading version, but just give the introductory part and count on you to read the full text.

It is a pleasure to appear before this distinguished committee once again. Last year when I met with you, I sought to demonstrate how our security and economic assistance programs are essential instruments to our foreign policy and how they are directly linked to the national security and economic well-being of the United States.

Since then we have benefited immensely from the contributions of two bipartisan commissions which have examined our programs within the context of U.S. foreign policy objectives and the fundamental values which we as a nation ascribe.

The Commission on Security and Economic Assistance, headed by Frank Carlucci, reviewed our total foreign assistance program. The National Bipartisan Commission on Central America to which you referred, headed by Henry Kissinger, reviewed our national goals and needs for assistance in Central America. More than two dozen Members of Congress served with these two commissions as members, ex-official members, or senior counselors.

We are indebted to those members and all commission participants for their work. We are particularly gratified that these citizens—Republicans, Democrats, liberals, conservatives, businessmen, labor leaders, and academics—reached a clear consensus on the importance of foreign assistance.

The Carlucci Commission concluded: "On balance, it is the judgment of the commission that U.S. assistance programs make an indispensable contribution to achieving foreign policy objectives."

Both commissions concluded that economic and military assistance are equally servants of our national interests. Economic growth contributes to the security, and security contributes to economic growth. Both commissions believe that current levels of foreign aid are inadequate. The Carlucci Commission states: "To meet U.S. foreign policy objectives, significant increases in real levels of assistance will be required."

Let me just say a word in overview, and then, as I said, I won't go through the area by area descriptions in the interest of conserving your time.

OVERVIEW OF FISCAL YEAR 1985 FOREIGN ASSISTANCE PROGRAM AND FISCAL YEAR 1984 SUPPLEMENTAL

The foreign assistance program for fiscal year 1985 totals $15.8 billion, of which $1.5 billion is multilateral aid and $14.3 billion is bilateral aid. This includes $9.4 billion in economic assistance and $6.4 billion in military assistance.

For fiscal year 1984, we are seeking supplemental funds of $1.1 billion, including $400 million for emergency economic assistance to Central America, $259 million for military aid to the region, $90 million in Public Law 480 food aid for the drought-stricken countries in Africa—believe you me, they are drought-stricken.

Our economic aid in fiscal year 1985 will focus on increasing food production and reducing hunger, improving health, especially reducing infant and child mortality, reducing population growth, spreading education and literacy, and improving host-country financial structures.

In military assistance, we have made a signficant change so that we can lower interest rates on loans to poor or debt-burdened countries. Over the past decade military assistance has increasingly been provided as off-budget loans with interest rates equivalent to the cost of money to the Treasury.

As a result, the Carlucci Commission reports that the 21 countries receiving substantial military and economic assistance in 1982 were charged an effective rate of interest of approximately 9 percent for military assistance against only 1 percent for economic assistance. This has meant that in some countries the military assistance repayments have become a large fraction of these countries' debt service, consuming foreign exchange needed for growth.

In response, we have moved all military assistance on budget, a step which Congress has long urged, and that I must say, as a former Budget Director, I would have to support. By so doing, we are able to provide military assistance loans either at a concessional rate or at the cost of money to the Treasury depending on the conditions in specific countries. This decision is a key step toward more effective management and integration of our military and economic assistance program.

Mr. Chairman, there is a great deal to be said on this subject, and it is a vast undertaking that we are talking about here, but I will stop at this point in the interest of promoting discussion here in the committee during the time that you have available.

[The prepared statement of Secretary Shultz follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ

SECRETARY OF STATE

Thank you, Mr. Chairman.

It is a pleasure to appear before this distinguished Committee once again. Last year when I met with you, I sought to demonstrate how our security and economic assistance programs are essential instruments of our foreign policy and how they are directly linked to the national security and economic well-being of the United States.

Since then, we have benefitted immensely from the contributions of two bipartisan Commissions which have examined our programs within the context of U.S. foreign policy objectives and the fundamental values which we as a nation ascribe.

The Commission on Security and Economic Assistance, headed by Frank C. Carlucci, reviewed our total foreign assistance program. The National Bipartisan Commission on Central America, headed by Henry A. Kissinger, reviewed our national goals and needs for assistance in Central America. More than two dozen Members of Congress served with these two commissions as members, ex-officio members, or senior counselors.

We are indebted to these Members and all commission participants for their excellent work.

We are particularly gratified that these citizens -- Republicans, Democrats, liberals, conservatives, businessmen, labor leaders, and academics -- reached a clear consensus on the importance of foreign assistance.

The Carlucci Commission concluded: "The instrumentalities of foreign assistance are potent and essential tools that advance our interests....On balance, it is the judgment of the Commission that U.S. assistance programs make an indispensable contribution to achieving foreign policy objectives."

Both Commissions concluded that economic and military assistance are equally servants of our national interests. The Carlucci Commission notes that rising standards of living in the Third World are vital to internal stability and external defense. Conversely, threats to stability impede development.

In a similar vein, the Bipartisan Commission characterizes the problems of Central America as a "seamless web" which can't be defined solely in economic, political, social or security terms.

Both Commissions believe that current levels of foreign aid are inadequate. According to the Carlucci Commission, "in real terms . . . U.S. assistance expenditures over the last five years have averaged some 21 percent below those of a comparable period ten years ago."

The Commission states: "To meet U.S. foreign policy objectives, significant increases in real levels of assistance will be required."

The Bipartisan Commission, having focussed on the problems of one region, also concludes that significantly more resources are needed to meet our national interests there.

In my testimony today, I want to build on the foundations laid by these two Commissions.

Our foreign assistance program serves four U.S. interests:

-- Our interest in a growing world economy which enhances the well-being of citizens in both the developing and the industrialized world.

-- Our interest in security -- protecting our vital interests abroad, strengthening our friends, contributing to regional stability, and backstopping our diplomatic efforts for peaceful solutions to regional problems.

-- Our interests in building democracy, and promoting adherence to human rights and the rule of law.

-- Our humanitarian interest in alleviating suffering and easing the immediate consequences of catastrophe on the very poor.

A world of stability and progress cannot be built by the United States alone. Therefore, strengthening our friends must be a central component of our foreign policy in both the economic and security dimensions. There is always the temptation to cut corners here and there in the aid budget; it is unwise to give in to this temptation -- it is penny wise and pound foolish. Strengthening our friends is generally an effective way to avoid major problems down the road -- problems that could end up costing us much more in resources and sacrifice.

I. Overview of 1985 Budget and 1984 Supplemental

The foreign assistance program for FY 1985 totals $15.8

billion, of which $1.5 billion is multilateral aid and $14.3 billion is bilateral aid. This includes $9.4 billion in economic assistance and $6.4 billion in military assistance. Chart A appended to this statement shows the relative proportions of economic and military assistance in the foreign aid program since 1974.

For FY 1984, we are seeking supplemental funds of $1.1 billion dollars, including $400 million for emergency economic assistance to Central America, $259 million for military aid to the region, $90 million in PL-480 food aid for the drought-stricken countries in Africa, and $320 million for the Multilateral Development Banks. Also, the supplemental request of $3.7 million for the International Atomic Energy Agency, while not large, is essential to our continued effort to improve the international safeguards regime.

Our economic aid in FY 1985 will focus on increasing food production and reducing hunger; improving health, especially reducing infant and child mortality; slowing population growth rates; spreading education and literacy; and improving host-country financial structures. Chart B shows how our economic assistance will be distributed geographically in FY 1985.

In military assistance, we have made a significant change so that we can lower interest rates on military assistance loans to poor or debt-burdened countries. Over the past decade military assistance has increasingly been provided as "off-budget" loans with interest rates at cost of money to the Treasury. As a result, the Carlucci Commission reports that the 21 countries receiving substantial military and economic assistance in 1982 were charged an effective interest rate --

including both grants and loans -- of approximately 9% for military assistance and 1% for economic assistance. This discrepancy has meant that in some countries military assistance repayments have become or threaten to become a large fraction of total debt service. For others, repayment of military assistance loans takes up foreign exchange needed for economic growth.

In response, we have moved all military assistance "on budget" -- a step which Congress has long urged. By so doing, we are able to provide military assistance loans either at a concessional rate or at the cost of money to the Treasury depending on the economic situation of individual countries. You will note on Chart C appended to my statement how we have increased the concessionality of military assistance in FY 1985 compared to previous years. This decision is a key step toward one of our critical goals -- the more effective management and integration of our military and economic assistance.

II. Central America, the Caribbean, and South America

Mr. Chairman, the National Bipartisan Commission concluded its study as follows: "persuaded that Central America is both vital and vulnerable and that whatever other crises may arise to claim the nation's attention, the United States cannot afford to turn away from that threatened region. Central America's crisis is our crisis."

The Commission emphasized that the countries of Central America, our neighbors, are in mid-passage from the predominantly authoritarian societies of the past to what -- with determination and help -- can become predominantly pluralistic, democratic societies in the future. That passage is marked today by warfare, poverty, and political turmoil, which breed extremism and violence from the left and the right. It creates conditions which Cuba and the Soviet Union seek to exploit for their own strategic and political purposes.

The United States has a profound interest in helping the people of Central America move from these travails to a future of greater economic and social justice. Our interests will be served by helping alleviate economic grievance in the region. We have a vital interest in helping our friends block the Soviet Union from consolidating a foothold in Central America. And most basically, progress in this hemisphere means the advancement of our most basic values: democracy and the rule of law. This is the kind of world we want our children to inherit.

President Reagan earlier this month quoted Senator Henry Jackson's remark when he recommended establishment of the Bipartisan Commission: "Whatever policy options might be available to us, ignoring threats to the stability of Central America and refusing to engage ourselves in the problems of the region are not among them."

The Bipartisan Commission recommended, and we concur, that our engagement in the region should be comprehensive: a mix of developmental, political, diplomatic, and security measures. It would be unsound to commit funds for economic recovery in Central America while ignoring direct military attacks on the very same economies. And military assistance alone would make no sense in the absence of the political and economic reforms which make societies worth defending. And the best guarantee that a military establishment will not threaten neighboring countries may be -- as Costa Rica has repeatedly advised

Nicaragua -- the moderation imposed by a democratic process rooted in free elections.

Because many of Central America's problems are rooted in poverty, our largest commitment of resources will be for economic reconstruction and revitalization. Of the supplemental funds we are requesting for Central America in FY 1984, $400 million -- or 61% -- are for emergency economic assistance. For FY 1985, the proposed levels for economic assistance are almost seven times the levels of military aid. In addition, we are proposing a five year $8 billion program for economic stabilization, reconstruction, and long-term development. This includes $6 billion in direct appropriations and $2 billion in insurance and guarantee authority.

These funds will support agricultural development, education, health services, export promotion, land reform, housing, and humanitarian relief, as well as trade credit insurance, and aid for small businesses.

We endorse the Commission's proposal to establish a Central American Development Organization (CADO) composed of representatives from the Central American countries themselves. Its independent recommendations will affect our determinations on the level and structure of our economic assistance.

We will also follow through vigorously on the Commission's conclusion that the United States must support the strengthening of democracy in the region. We are proposing aid to democratic, educational and cross-cultural institutions, as well as increased funding for scholarships, leadership training, and educational exchange.

The Commission recommends significantly increased military aid for El Salvador. To see and act upon only indigenous social upheaval in that country is as short-sighted as to recognize and react only to the role of Cuba and the Soviet Union. Our aid supports the moderate center against extremists of both the left and right. If we give inadequate help, it is the moderates who will be the victims. We have an example immediately before us.

An active security role by the Salvadoran military is central to the successful conduct of the presidential elections taking place this month. An expanded military presence in the countryside can counter any increased guerrilla attempts to disrupt the elections and help ensure an environment which encourages broad popular participation. Our military aid can enhance this prospect by assuring the Salvadoran armed forces adequate replenishment of supplies. For us to do otherwise can only detract from our objective to strengthen democratic institutions. In the words of the Commission Report, "the worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully."

We agree, that without continued progress on human rights and democratic reform in El Salvador, as well as elsewhere in Central America, our policies will not succeed. We also agree that U.S. military assistance should be conditioned on this progress. Salvadoran leaders have been made aware of this fact repeatedly; we are submitting periodic reports to the Congress on the human rights situation in that country. However, legislation which imposes absolute, inflexible restrictions on the President's ability to protect national security interests would jeopardize our efforts to bring about lasting improvement in the observance of human rights. We want to work closely with the Congress to ensure continuing human rights progress within the context of an effective foreign policy.

Finally, there is a consensus between the Commission and the Administration on another integral part of our strategy in Central America: support for the efforts of the Contadora countries to bring peace to the region. The Contadora objectives are in Central America's interest and in ours. We support fully the substance of the Contadora objectives as well as the process itself.

Mr. Chairman, the President's program for Central America is ambitious and comprehensive -- consistent with the challenges we face. We urge your support.

I have talked at length today about Central America. But it would be truly wrong to ignore the same kinds of interplay between economic growth, security, and democracy elsewhere in Latin America and the Caribbean.

What we found in Grenada, for example, demonstrates how indigenous grievances can be misappropriated for strategic ends and turned against the people. Earlier this month, I had the pleasure of joining the celebration of the tenth anniversary of Grenada's independence. It was joyful --a rebirth of freedom and economic hope. It underscored that freedom and economic progress depend on an environment of security. The enemies of democracy and development are the violent extremes of the left and right.

The task of blunting these extremes takes not only efforts to strengthen democracy and promote economic growth, but also requires professional security forces and a system of collective security which can protect people and the rule of law. Our security assistance -- as our economic assistance -- is vital to building a hemisphere which is self-reliant and able to fulfill the aspirations of its people. Our support for these programs serves the fundamental interests of all the citizens of this hemisphere -- our neighbors' and our own.

III. Africa

I turn now to Africa, which faces a much different, although perhaps equally serious, crisis.

Drought is widespread. As some Members of Congress have eloquently reported, starvation stalks the continent. In response, the United States has committed nearly 200,000 tons of food from our emergency Title II reserve. But we now have requests from African governments for an additional 150,000 tons, and expect further requests for 130,000 more tons this year. We are, therefore, requesting Congress to approve an additional $90 million in PL 480 Title II for Africa for FY 84. When people are dying, common decency compels us to respond.

Drought may be the immediate cause of the food crisis, but Africa's difficulties have deeper origins. Food production per capita has fallen by over 20 percent since the 1960's. Over the past decade, the national product of 15 African countries declined. For much of Africa, export earnings are down, import prices are up; excessive debt burdens many African countries.

There are many reasons for Africa's economic problems, but a primary cause lies in Africa itself. Briefly put, many African countries have followed policies which don't produce growth. Pervasive state controls, bloated state enterprises and bureaucracies, over-valued currencies, and disincentives for agriculture have all had the effect of stifling the private sector and individual initiative.

The requisites for economic growth in Africa are many. But Africa needs to replace policies that won't work with those that will. There is increasing recognition of this fact in Africa and a number of countries are undertaking policy reforms.

To encourage this process, the President is proposing, beginning in Fiscal 1985, an Economic Policy Initiative for Africa. This effort has three components:

-- First, we are proposing a five-year, $500 million program, beginning with $75 million for 1985, as a new program specifically to assist African countries establish and implement growth-oriented economic policies. We will give particular attention to reforms which increase food production.

-- Second, we are working with other donors -- particularly the World Bank -- to coordinate donor aid efforts better and provide more unified support for policy reform in Africa.

-- Third, we will continue to direct our ongoing development assistance to helping build the skills and institutions needed to carry out better policies effectively.

Continued economic crisis in Africa can generate or amplify security problems. Libya continues its efforts to subvert governments and install puppet regimes in Chad and elsewhere. There are the continuing conflicts in southern Africa which we and our allies are seeking to resolve through negotiations.

However, unlike Central America, the security problems in Africa to date require only modest military assistance from the United States. The prime need there is to reinvigorate economic growth. There is no reason to despair about the future. Several African countries have made progress. With more effective policies and continued investment by Africans, the United States, and other donors, Africa can resume the progress which marked its first years of independence.

IV. The Middle East and Surrounding Regions; Southern Europe

We now turn our attention toward an area where security has become the predominant concern. A line on the map from Spain and Portugal in the West to Pakistan in the East passes through or near: the straits of Gibraltar, the Mediterranean, Libya, the Suez Canal and Egypt, the state of Israel, the Persian Gulf oil fields, and the southwestern border of the Soviet Union.

There is no area so pregnant with threats to peace -- not just regional peace, but world peace. Peace is not yet achieved between Israel and all its neighbors; Iran and Iraq remain at war; the Soviet Union is occupying Afghanistan.

About half of our total FY 1985 foreign assistance request is directed to promoting our national interests in this area -- interests which also can profoundly affect Western Europe, Japan and the rest of the free world.

Our highest priority continues to be a just and lasting peace in the Middle East. Israel and Egypt, at peace now for almost five years, have thus far been our principal partners. Our programs with these two states have three aims: nourishing the economic growth which underpins their security; sustaining the military forces they need for defense; and in the process, providing the confidence and security they need to continue their support for the peace process.

We have made significant changes in the military assistance programs for Israel and Egypt this year. To reduce the debt service burden associated with heavy defense requirements, we are recommending that all military assistance to these two countries be grants, not loans. Because grants are more valuable than loans and because of the cash flow requirements of these programs, we have reduced our military assistance requests for both countries below the levels made available in recent years. We have discussed these proposals thoroughly with Israel and Egypt and there is general agreement that these levels and terms support our mutual goals.

Our program for the Middle East focusses also on Jordan, whose role will be crucial in taking the next major step toward peace. Most of the funds we propose for Jordan in FY 1985 will go for military assistance to help that country meet its defense needs. The Kingdom of Jordan is a moderate Arab government that has long been a friend of the United States. It now faces a severe challenge from Syria and other radical forces, precisely because of its constructive policies.

In Lebanon, as the President said, the bloodshed we have witnessed has demonstrated the length to which the forces of violence and intimidation are prepared to go to prevent a peaceful reconciliation process.

Our troops are now offshore, except for those in training positions and protecting our Embassy. We are not, however, abandoning our friends in Lebanon or the legitimate government in Lebanon. Diplomacy continues, with the aim of ending the fighting and reaching a political solution to Lebanon's internal conflicts.

Once the political reconciliation process is genuinely underway, we will be prepared to provide appropriate advice and support for the Lebanese Armed Forces -- one of the arms of government necessary to an independent state. We will also continue to provide appropriate assistance so Lebanon can begin to rebuild its economy after the current strife ends. Firm decisions on these issues must depend on a clarification of events in Lebanon. We must be prepared to continue to play a crucial role, however, and the funds we have requested in the current budget will enable us to support that continuing program.

The oil producing states in Southwest Asia are vulnerable to outside threats and internal subversion by externally supported elements. Nearby in Africa, Sudan and Somalia face also the threats of instability which arise from poverty and ethnic grievances. Our programs in these areas seek to reduce these pressures and instabilities. At the same time, we are supporting countries that provide access to the facilities which our forces would need in order to operate in the area should that ever be necessary.

There is no disputing the importance of Persian Gulf oil to Western economic and strategic interests. The best way to protect these interests is to work with countries in the region to help them build their economies and to support their efforts to provide for their own security.

Our NATO allies, Turkey, Greece, Spain, and Portugal, provide a shield both for the Mediterranean and the southern flank of Europe, as well as a bridge to the Middle East and Southwest Asia. U.S. security assistance is essential if these countries are to meet their Alliance responsibilities.

We propose in 1985 about $1.8 billion to support on-going military modernization programs in Turkey, Spain, Portugal, and Greece. Greece, Turkey and Portugal lag behind other NATO countries in military strength and urgently need modernization. These countries all offer U.S. access to important facilities. There has been encouraging progress in Turkey which occupies a strategic position. The infusions of aid from the United States and Europe in the past few years have helped Turkey recover from its near bankruptcy in the late 1970s. The Ozal government has announced reforms to encourage market forces and competition to increase exports. These should further enhance Turkey's prospects. Our interest lies in continuing to support Turkey's growth, and we propose $175 million in ESF for FY 1985.

We signed a new base agreement with Greece in 1985 providing for continued U.S. use of the important facilities in that country. Security assistance is an integral part of our defense cooperation in Greece.

Our principal objectives in the security assistance program for Portugal are to support the continuing consolidation of its democratic institutions, to help Portugal modernize its military, and to assist Portugal as it confronts continuing economic problems. U.S. rights to use critical Portuguese facilities in the Azores were extended in December 1983. The Azores base is pivotal if the U.S. is to react effectively to military challenges in Europe or to threats to Western security outside the NATO area. Spain, a NATO ally since 1982, provides the United States access to vital air and naval facilities which will be crucial in the event of a European conflict. By contributing to Spanish military modernization, U.S. assistance strengthens the common defense and encourages an institutional role for the Spanish military similar to that of the military in other Western democracies.

VI. Asia

The pictures I have been painting in this rapid tour around the globe brighten when we turn to Asia.

Despite skyrocketing oil prices and the weak economic performance of the industrialized countries this past decade, the economies of non-communist Southeast Asia continued to display remarkable vitality. Thailand, the Philippines, and Indonesia all experienced annual growth rates in the 6-7 percent range during the 1970s. For some 20 years, the East Asian countries have sustained higher growth rates than any other part of the world.

South Asia, where the majority of the world's poor live, has also seen reasonable improvements, particularly in agricultural production.

There are some dark spots. In recent years, the Philippines has increased its external debt and growth has lagged. Sri Lanka suffered a setback in 1983 following communal violence. But, assuming continued inflows of capital, sound policies, and a good "pull" from restored economic health in the West, economic growth will continue in Asia.

And what do we learn from this record of progress? We learn that growth improves well-being for those at the low end of the income distribution spectrum. For instance, according to a World Bank estimate, absolute poverty in Thailand has dropped from 57 percent in the early 1960's to 30 percent in the mid-1970's.

Moreover, available evidence suggests that where economic growth is rapid, the lowest 40 percent of income earners have moderately increased their share of total income over time.

The Asian experience provides lessons for countries in Africa and other parts of the world. We have found the benefits to lower-income groups from growth to be greatest where the following conditions obtain: (1) growth is broadly based and agricultural prices favor producers rather than consumers; (2) productive investment is labor-intensive; (3) government interference in markets and prices is minimized; and (4) population growth rates are low and educational attainment levels are better than average.

And we have also learned how rapid growth in Third World countries benefits us both as producers and consumers. The East Asian countries now account for about one-sixth of world trade. U.S. investment in the region now exceeds $26 billion and is growing.

The population of Asia (even excluding China) exceeds that of Africa, the Near East and Latin America combined. Continued growth there will be an enormous contribution to world prosperity and stability. Our development aid programs in Asia are concentrated in South Asia and Indonesia. They emphasize technical assistance in fields such as agriculture research.

Whether we speak of this aid as simply an investment in the future or more pointedly as an investment in an immense future market, we will reap great returns from continuing to assist growth in the region.

Precisely because the stakes are so high both in economic and strategic terms, and because serious threats remain, we continue to provide military assistance in the region. Our aid to Thailand and Korea deters direct military threats to these countries from, respectively, Vietnam, which now has the world's third largest standing army, and North Korea, which spends over 20% of its GNP on its military. In addition, the Soviet Union has greatly increased its military presence in the region. Our assistance to the Philippines helps maintain the U.S. bases there which undergird our strategic position in the Pacific and Indian Oceans. Our relationship with ASEAN is an important pillar of stability in Southeast Asia.

VII. The Multilateral Development Banks (MDBs)

In FY 1983, lending by the World Bank and its regional counterparts totaled $20.4 billion, up from $16.8 billion in FY 82. That this lending program was sustained with a paid-in contribution from the United States of $1.5 billion testifies to the advantages of using the multilateral development banks to share the burden of providing aid. These institutions are also leaders in providing advice on sound market-oriented economic policies.

We consider our participation in the multilateral development banks as a crucial part of our assistance policy. I want to stress in particular the important role played by the International Development Association in promoting development in the poorest countries. We have just completed negotiations for the seventh replenishment of IDA's resources. In our judgment, this replenishment provides a basis for a strong IDA program in Sub-Saharan Africa to work in conjunction with our Africa initiative. We are requesting the final $150 million for IDA VI in our FY 1984 supplemental proposal and $750 million for IDA VII in our FY 1985 budget proposal. Our pledge to IDA VII has been widely discussed in the Congress and should enjoy broad support here.

VIII. Conclusion

Mr. Chairman, you and the other members of the Carlucci Commission concluded that the foreign aid program is vital to our national interests. I have tried to show why this is so region by region.

You also recommended improvements in the program, particularly more effective integration of military and economic assistance and development of means to speak to the Congress about the program as a whole rather than its individual parts. I have reviewed all your recommendations and have asked for immediate follow-up on most. Many were already on this Administration's agenda of improvements.

I did not agree with the Commission's recommendation for a new Mutual Development and Security Administration because I felt that the Commission's main aims -- better integration of our assistance programs and a more unified voice in representing these programs to the Congress -- could be achieved within our existing structure and without the disruptions of a major reorganization. I have asked the appropriate offices to prepare a plan for doing this by early March.

The Carlucci Commission produced a bipartisan consensus as to the value of our foreign assistance program. We will do our part to improve the program as recommended. We hope Congress will respond in kind by supporting and passing the budget requests which we have made.

CHART A

U.S. Foreign Economic Assistance and Military Assistance

In Current and Constant Dollars

FY 1974—FY 1985

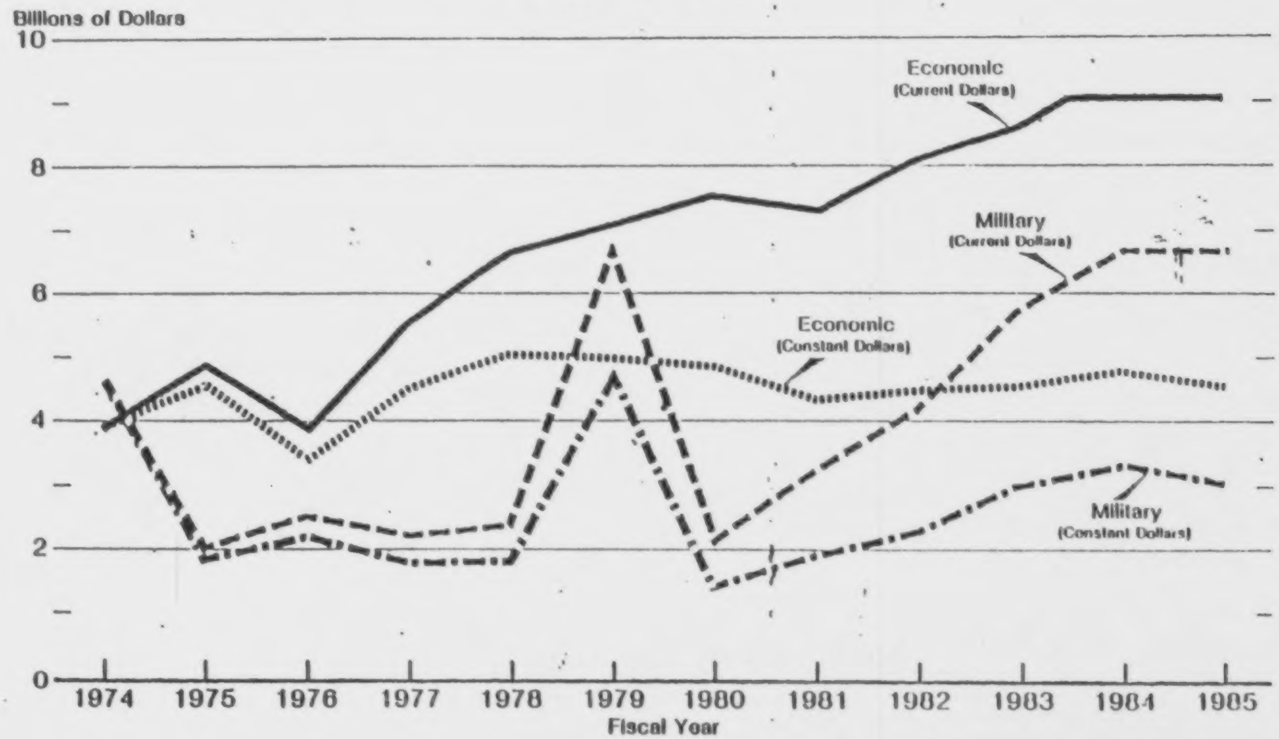
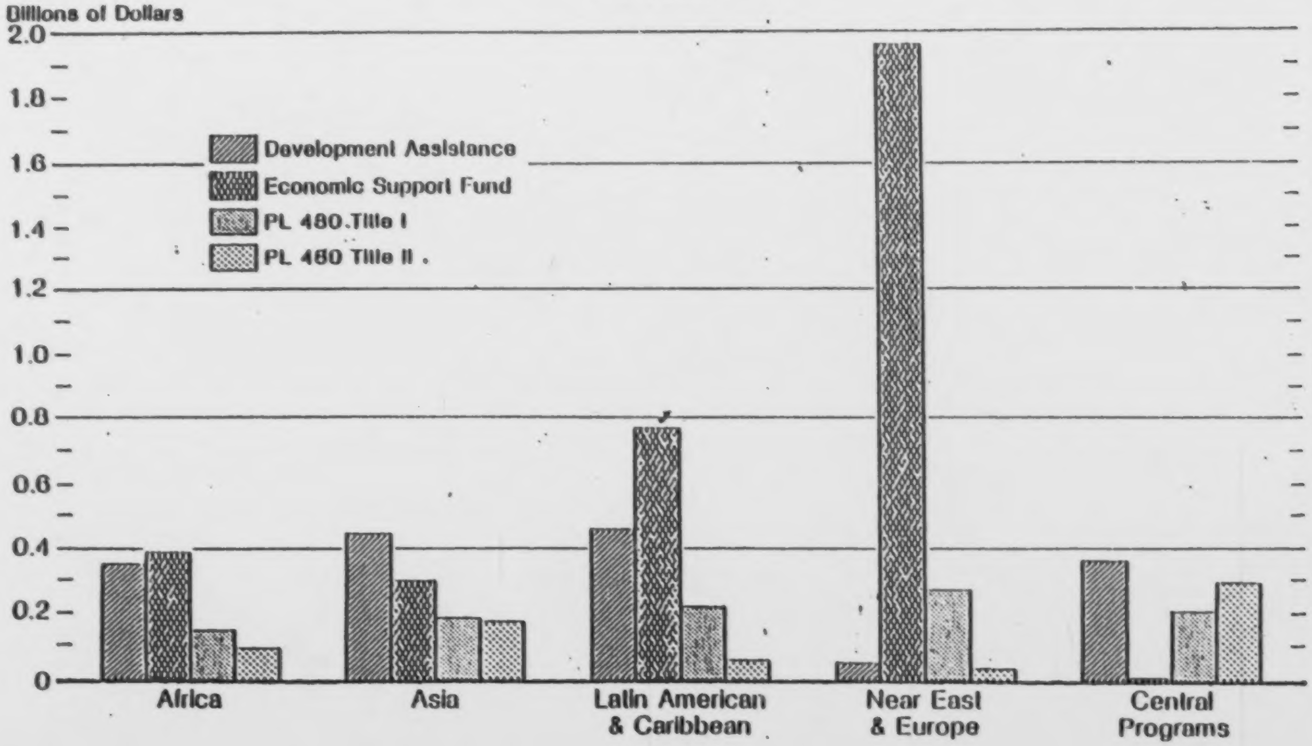
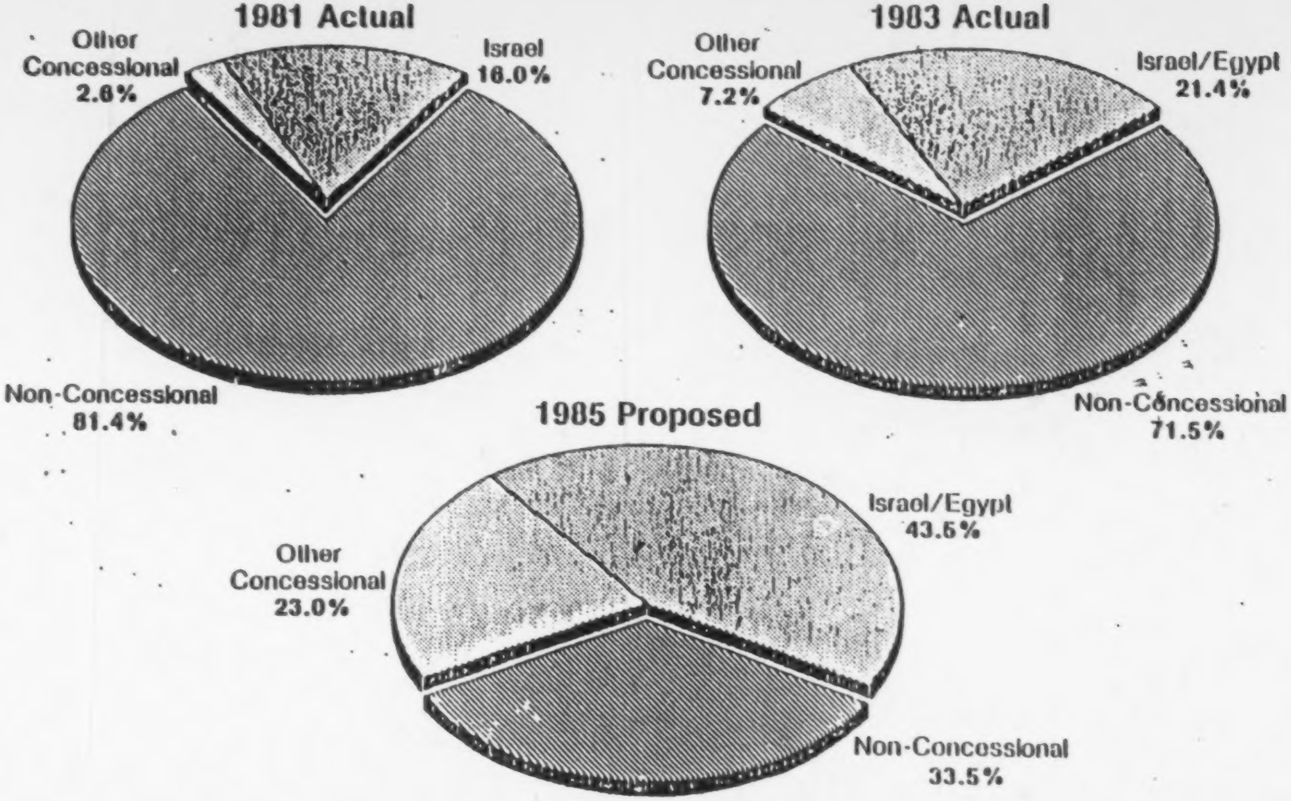


CHART D

A.I.D. Economic Assistance
By Region
FY 1985



Military Assistance Concessionality



HEARING PROCEDURE

Senator KASTEN. Mr. Secretary, thank you. Because Senator Hatfield has time problems and is going to be leaving quickly, I would like to yield my time to Senator Hatfield now for his questions. As soon as Senator Hatfield is completed, I will call upon Senator Inouye, the ranking minority member, for an opening statement.

After that time, we will begin our questions. I think that because of the fact that we have as many people as we have here today, we will try to work with a rough 10-minute rule, and see if we can make it through for one or two rounds.

The Senator from Oregon.

CONDITIONS ON AID TO EL SALVADOR

Senator HATFIELD. Thank you, Mr. Chairman, for your courtesy. I appreciate very much the opportunity to be here and to hear the Secretary. I shall read your full statement, Mr. Secretary. I do have a hearing to chair at 10 o'clock with the Secretary of Energy, and that is the purpose of my asking this special consideration.

Mr. Secretary, recently I asked the Congressional Research Service to provide me with a listing of conditions that the Congress has attached to El Salvadoran aid since 1980. These include such things as the certification process, the political and land reform matters, the investigation of the murder of U.S. citizens, and the curtailing of indiscriminate violence by the death squads.

JUDICIAL REFORM IN EL SALVADOR

On March 23, 1983, this subcommittee also urged judicial reform, which encompassed attention given to effective prosecution of those accused of murdering U.S. citizens, guaranteeing physical security and the integrity of the participants in the judicial system. Then two provisions in the fiscal year 1984 continuing resolution, which included the linking of 30 percent of the military assistance to bringing of those accused of murdering U.S. citizens to trial, and 10 percent of the military assistance tied to documenting progress in the land reform program.

The administration has provided the Congress a report every 6 months despite the lack of progress in human rights, the prosecution of those accused of murdering U.S. citizens, and curtailing the death squads.

LAND REFORM IN EL SALVADOR

In fact, you recently gave the committee a report stating that progress had been made in land reform. At the same time, we have the AID's Inspector General who questions the future of land reform because of the way it is being administered. Lastly, I understand there are reports that you may be ready to waive the provision regarding the prosecution of those accused of murdering U.S. citizens.

HUMAN RIGHTS IN EL SALVADOR

Basically, I am a little unclear, as a result of this CRS overview, as to really what progress in human rights has been made, and I was wondering if you would care to comment on what appears to be not necessarily a very good track record on the compliance with these legislative requirements attached to these various bills.

I was wondering what your thoughts are as far as the future is concerned, particularly in the matter of these death squads and the continuation of this particular violation of human rights.

COMPLIANCE WITH CONDITIONS PLACED ON AID TO EL SALVADOR

Secretary SHULTZ. Let me comment on the several aspects of your question.

First of all, insofar as a proper administration of a law that is enacted that comes under my purview, whether I agree with it or not, I give you my assurance that I will administer it as fairly and properly as is humanly possible. I have always had that view in the various jobs I have had in the Government, including the present one.

Some calls are close and difficult, and you have to make them and spread it on the record what the facts are as you see them. The fact of the matter is that there are a lot of ambiguities in many of the situations, and you have to make a judgment under all of the circumstances, and that is the way that I try to do it.

LAND REFORM IN EL SALVADOR

Second, on the question of land reform, I think that there has been undeniable progress in the sense of the definitions of progress that have been set out. That is, a great deal of land has been distributed through the land and tiller program, and the large farms in phase I, I guess it is, of the program has essentially worked out.

The amount of production lost as a result of that has not been too great. When you have to put it that way, it is a bit of a marker. Anyway, I think that probably what losses there are are attributable to the conflict around as distinct from the land reform. The in-between program, which has been a very difficult one to implement, I think has been made now implementable by the action of the Constituent Assembly recently.

So there has been a great deal of activity and progress in that program. There are things that remain to be done, particularly having to do with actual ownership, and these are things that our AID people are working on.

As to the report of the Inspector General, I think Mr. McPherson can comment on that better than I can. There have been a number of reports that are not based on a written statement that has been submitted to us, but sort of what somebody says to somebody, and those are very difficult things to cope with. In terms of our own reports and knowledge, Mr. McPherson can comment on that.

PROGRESS ON HUMAN RIGHTS IN EL SALVADOR

On the issue of death squads, the rule of law, prosecuting, following up on cases, particularly involving American citizens, but I think we must take the view that justice is justice, whether it is American citizens or El Salvadoran citizens, or any human being. We all know that the background of the society is very different from ours, and that progress has been slow and in many cases not satisfactory. I have said that in public hearings in El Salvador and various other places.

Having said that, however, it is the case that there has been progress. The graph of civilian deaths, noncombat type deaths, has sloped like this. It still comes down to where the interval between zero and that number is far too high, but nevertheless if your standard is some progress and a genuine effort to create an atmosphere that says, "that is bad," I think that we have gotten somewhere.

On some of the cases, obviously it is very slow. I know Senator Specter has taken a special interest in the churchwomen's case, and you have put a lot of your own personal effort into it down there. It has been very helpful. That case finally has come to the stage where it looks as though the last hurdle, before it actually goes to trial with a jury, has been crossed. That is a measure of progress.

If you look at the amount of time it takes, it is much too long, but at any rate there is progress there, and in a number of similar instances. We have also been making an effort at underlying judicial reform, and as I understand it there has been a good deal of motion.

So if you say, on a snapshot basis, is the situation satisfactory, the answer is no. If you say, on a moving picture basis, has there been change in motion, even if sometimes you have to slow it to slow motion, the answer is, yes, there has been.

POSSIBLE CONTINGENCIES PLACED ON EL SALVADORAN AID

Senator HATFIELD. Mr. Secretary, can you conceive of a set of circumstances in which the administration would recommend a diminution of aid or a cut off of aid if such matters are not brought to a conclusion?

What is the timeframe in which the trend line approach to these problems is acceptable? What if, for instance, in the elections coming up someone is elected, and he does not give that same emphasis to this direction that we are moving on these trend lines?

You have spoken out very recently, in fact, about the problem within El Salvador. Is there a kind of leverage or pressure that you would be willing to apply from the administration point of view? Up to this point, it has been more or less the congressional action that has put leverage to these programs.

Secretary SHULTZ. I would like to think, Senator, that the concern about these problems is basically something that springs from the sense of values of the American people generally. It is not congressional or executive, or whatever, but a statement about our values, and the relationship of them to our foreign policy efforts.

I tried to set out our thinking on this the other day in what I tried to make a major address, although it didn't catch anybody's attention. I would like to send you a copy of it because I tried to struggle through these matters. The administration has spoken very clearly on this subject. The President has and I have, publicly and privately.

EL SALVADOR CERTIFICATION

The congressional certification process, I think, has undoubtedly played a useful role. At the same time, I think one can legitimately question whether or not the same kind of thing indefinitely is the best way to achieve the results that we all seek. There is no difference of opinion about what the objectives are at all.

I think there was a certain impact after the President vetoed the certification bill that the administration, in a concerted way, went after this subject very hard. The Vice President went to El Salvador, and I have been there, but there have been a lot of other statements. What has happened is that the certification process isn't there, but here is President Reagan and he is hitting this just as hard as ever. So apparently it is not just the Congress, it is the administration, too. I think that has made an impact.

I am not trying here to argue out this difficult question that we are going to have to work through on certification, but I think that it is important that they see that it isn't just the Congress, or it isn't just the administration, it is an expression of our values even in the context of something that the Kissinger Commission identifies as in our vital security interest.

As to putting a timetable down, I don't really know how to do that. I know patience runs out. On the other hand, sometimes a deadline is useful, it is also, I think, quite true to say that dates and deadlines can produce counter-productive results, as those who wish to see a cutoff say that if we can produce problems and blame them on somebody else, then we can make life difficult for the continuation of aid, and you give them an additional incentive to cause problems.

I am not here trying to argue that that is accounting for the major fraction of the problem, but it accounts for a fraction that gives a reverse kind of incentive, and I think that it can constitute a problem.

Senator HATFIELD. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

IMPACT OF ECONOMIC GROWTH ON QUALITY OF LIFE IN CENTRAL AMERICA

Senator KASTEN. At this time, I would like to yield to the Senator from Hawaii for his opening statement. Before I do so, I just want to say how much I appreciate the help that I have received from my ranking member as we have been working together. I appreciate your help and your support. It is a real pleasure to work with you.

Senator Inouye.

Senator INOUYE. Mr. Chairman, I thank you for your generous words. I hope to be able to once again be very supportive of your actions here.

Mr. Secretary, it is always good to see you, sir. I am sorry I wasn't able to make the meeting this morning.

Mr. Secretary, yesterday I filed my views on the report of the Kissinger Commission, and I was struck by the clarity and forcefulness of the Commission's review of the failure of modernization and national economic growth to improve the quality of life for the majority of the people of Central America.

In my report, I quoted from the Commission, and I believe the quote is very apropos at this time. "The fruits of the long period of economic expansion were distributed in a flagrantly inequitable manner." Mr. Secretary, I then asked the question, why should we now expect that the outcome would be different?

Mr. Secretary, you have said that you want to build on the foundations laid by the Carlucci and Kissinger Commissions. The National Bipartisan Commission on Central America stated, and I believe it is worthwhile to once again quote:

> Ultimately the effectiveness of increased economic assistance will turn on the economic policies of the Central American countries themselves. Unless these reforms are extended, economic performance will not significantly improve regardless of the money foreign donors and creditors provide. In too many other countries, increased availability of financial resources has undermined reform by relieving the immediate pressure on policymakers. This must be avoided in Central America.

I would like to repeat for emphasis, "This must be avoided in Central America."

Mr. Secretary, when my turn comes, I shall raise some questions about these matters. For now in my opening remarks, I would hope that you would address yourself to this issue: If you are building on the foundations laid by the Kissinger Commission, what economic policy reforms will this administration require before making increased financial resources available, and how will this administration avoid undermining reform?

I look forward to the question and answer period. Thank you very much.

Secretary SHULTZ. Should I respond, or do you want to wait? I like to take things up when they are mentioned.

Senator KASTEN. Why don't you make a brief response to the Senator from Hawaii right now. I think that would be appropriate.

Secretary SHULTZ. I think, first of all, we should remember the statement of the two commissions—in the case of the Kissinger Commission, a bipartisan commission—that the United States has vital interests in Central America. That was a conclusion that they reached.

I think once you say that, you say to yourself that in one way or another, we must pay attention, and we must see how things can be constructed in a manner that is more compatible than having the Soviet-Cuban-Nicaraguan pattern spread throughout that part of the world, more compatible with our security interests. That is a No. 1 point I would make.

Second, reflecting on your general comment, the Carlucci Commission did conclude that the levels of assistance that we have are not adequate. It doesn't mean that you can pour money on problems and expect to get a result, but I think that they look at both sides of that coin.

I think, on the question of why we might expect there to be a different distribution of income, in effect, if economic development can take hold under the kinds of conditions that we would like to see, it goes back to the sorts of things that we have generally been talking about, namely, that if these societies can be more open, more democratic, more subject to the rule of law, have a greater access to ownership than before, then I think you can expect to see some shift.

Something like land reform, I find myself advocating it in El Salvador but, I will tell you, I have to swallow very hard because, as a general proposition, land reform and nationalizing banks, and so on, I am against those things. I am a believer in property rights, private enterprise, and so on.

But you had a situation there that was such that unless somehow you broke the stranglehold of a relatively very few, you were not going to be able to bring about a pattern of ownership and private enterprise that could flourish. At least that is my rationalization there. Those are quite different kinds of things.

Senator INOUYE. Will you yield at that point, sir?

Secretary SHULTZ. Yes.

ECONOMIC REFORM IN CENTRAL AMERICA

Senator INOUYE. These are conditions of this administration to make certain that the grasp of the small click be somehow loosened, that the society be open and democratic, as you have indicated?

Secretary SHULTZ. That is what we are trying to achieve, and I think that we have a model in Costa Rica.

Senator INOUYE. Will this be made a condition of our aid?

Secretary SHULTZ. I think that in the broad sense, it must be well understood that the flow of assistance from the United States will be greater or less, or on or off, depending upon satisfaction of some combination of reasonable results from the standpoint of our values, while at the same time being cognizant of our security interests.

In the long run, a situation that is totally at variance with our own values is not going to get supported, and I agree with that.

Senator INOUYE. Should the Congress of the United States play a role in determining whether these conditions are satisfactory so that it will be on or off, or high or low?

Secretary SHULTZ. In answering that question unequivocally, I don't answer the question of precisely how. I think we should judge the answer to that question according to what we think is going to be most effective as we work together to bring about the result that we all seek.

Let me just comment on some of the other questions that you have raised, basically, on what gets economic performance. You quoted the statement that "reform can be undermined by relieving pressure." I certainly accept that as a general point.

I do believe very firmly that in the post-World War II world there was a wave of thinking that said that somehow socialization, and command and control from the center was the way to get economic development.

That has been proven wrong, and the examples that we can point to of economic development around the world are much more cases where there was relatively more openness, relatively more reliance on the market, relatively more reliance on private initiative. So those are the things that we seek to support as is illustrated very directly in the Africa initiative that is before you. As a general proposition, I think that is correct.

If you look at Central America, and take El Salvador in particular, I believe I am correct in saying that the Kissinger Commission group judged the economic support levels to a very heavy extent in terms of the damage to infrastructure that was observed and, in a sense, what is needed to kind of bring the thing back to where it was at an earlier time in 1979, and thereby give the sort of infrastructure support on which you can expect there to be genuine economic development. But, of course, you are not going to get any economic development to speak of until the security shield can work properly. It is a must, there is no ifs, ands, or buts about that.

LEVEL OF SUPPLIES TO EL SALVADORAN ARMY

Senator KASTEN. The subcommittee will now proceed to 10 minutes of questioning from each of the members.

Because of a scheduling conflict, I am going to yield 5 minutes of my time to Senator Rudman, the Senator from New Hampshire. I will, therefore, just ask one question and then yield to the Senator.

Mr. Secretary, today in the paper there is a headline which says, "Officials counter reports that Salvadoran Army is short of supplies." It went on to say that one knowledgeable foreign source said we are pretty well set right now. We can get through March. If we get into some pretty heavy combat, then there would start to be shortages possibly in April or May. It also quotes in the same article a knowledgeable military source saying, "I am concerned about the levels of supplies, but it is not critical."

Over the past week or two, members of the administration have come to Congress and, in both private and public discussions, have talked about the critical need and how worried we are about the level of Salvadoran supplies. What is the situation? Is it a critical need? What is the administration planning to do either in a supplemental request or some kind of an emergency drawdown?

Secretary SHULTZ. Broadly speaking, I believe that there is a supply problem, and that it is genuine. As to how it should be dealt with, there hasn't been any decision, and nothing has gone forward to the President on that. Nevertheless, I think it is a genuine problem.

It is hard for me to comment on newspaper articles in this morning's paper that quote unnamed sources alleging this, that, and the other thing. I wish all government officials would stand up and be counted in the sense of saying, "If you have something to say, identify yourself, say it on the record, and let us know who is talking and what exactly is the factual basis," rather than these constant unnamed officials who may or may not be real.

I assume no reporter writes a story unless he has talked to somebody, or she has talked to somebody, but who the somebody is and what the basis for their information is, is always very difficult to pin down.

I think the very nature of what you read suggests—I have not read that article—the nature of this problem. If it is a question of whether or not supplies will last through March, with a presidential election on March 25 where the Army is going to have to spread itself out around the country and try to maintain law and order, or whether it might make it through April or even May, you see the kind of position that you put an armed force in.

How do you operate when you don't know whether you are going to run out of supplies this week or next week, or 4 weeks from now. It is hard to make a plan and to have any sense of assurance about the real flow of resources. Of course, what that must tend to do is that you have to make some kind of a choice between going for broke, and then if you run out, you run out, or you may say, no, I can't risk that much, I can't bet the store, so I have to cut down the rate of use dramatically. Then, of course, the rate of use will have an effect on how long something lasts, but it also has an effect on how effective you are going to be in carrying out your objectives.

Even if you are playing around with things like March, April, or May, and it shows that even those, apparently, who were being quoted as saying there's plenty, illustrate this problem.

EL SALVADORAN ELECTIONS

As far as the election is concerned, it is, I think, very important that there be a person elected by a vote. We believe in that in this country, don't we, that this is the way to establish who should be President of the country. Then we should respect the outcome of that vote.

There are six candidates. The election is going to be held March 25. Many whose views are different from ours don't want that election to take place. They don't want to see a legitimate President produced.

With six candidates, I don't know how the vote is going to come out, but you have to say that there is a pretty good probability that nobody will get over half the votes. That means that there will be a runoff. The runoff, undoubtedly, will have to be late April or in May sometime before that can be done.

So that is the Presidential election period we are talking about. Put that up against the thing in the newspaper story, and you see that even the unnamed sources, which seem to be trying to say that there is plenty, are saying to you that you have a very touchy situation.

AMERICAN MILITARY EXERCISES IN EL SALVADOR

Senator KASTEN. The Senator from New Hampshire.

Senator RUDMAN. Thank you very much, Mr. Chairman. I appreciate your courtesy.

Mr. Secretary, your suggestion on forthrightness is commendable, but I expect that if all the stories in this town were based on named sources, the Washington Post would be mostly full of ads. [Laughter.]

Secretary SHULTZ. I don't know, I think there are a lot of standup people around. I think we ought to flush this out of the woodwork. I know that it is futile to talk about it.

Senator RUDMAN. Mr. Secretary, I am going to ask you one very brief question. We tend to talk about Central America, and as a region that is important, but each country is quite different.

In the recent weeks there has been a lot of criticism of American military maneuvers and exercises in Honduras. A few of us went down there last weekend, and we had been following it for some time before that. I would like your comments to one very simple question.

LAND OWNERSHIP IN HONDURAS

What we found was quite a difference there. One of the things that struck me was the land ownership is, in fact, and has always been largely with farmers, the growers themselves.

Secretary SHULTZ. You are speaking of Honduras now.

Senator RUDMAN. That is correct.

We found four very active newspapers in the capital, two of which were fairly outspoken in their opposition to certain policies. We found labor unions there that did flourish. At best, but still a democracy, if not an infant democracy.

AMERICAN PRESENCE IN HONDURAS

Your comments, please, on the effectiveness of the American presence there last year in Big Pine II in terms of discouraging what were perceived to be Nicaraguan threats to that country at that particular time?

Secretary SHULTZ. It is always hard to put cause and effect together, but it is a matter of judgment in a nonquantitative field like this.

Senator RUDMAN. Everybody else seems to, so why don't you?

Secretary SHULTZ. I am saying that it is my judgment. It is one man's opinion, and others can have other opinions. I think that the purpose was, first of all, training for ourselves; second of all, training for the Hondurans who appreciate it very much; and, third of all, to give an expression for everybody to see that the United States is capable of mobilizing a large scale force in the area if we decide that we want to. So it was an expression of those things.

IMPORTANCE OF CONTADORA PROCESS

It is the case that the rhetoric, at least, of the Nicaraguan Government has changed a lot since that time. There are a lot of other things going on. The Contadora process has been working at that. But I think that the sense of determination that has come through probably has had some impact on what success the Contadora process has had.

On the other hand, everybody says, and I believe, that there is no such thing as a military solution to these problems. You have to find a negotiated or a political solution in the end, and that must be the way we think about it, so there is an interplay there. But I think the sense of determination and widespread feeling—the Kissinger Commission report supplements this—that we regard this area as vital to the interests of the United States carries a strong message.

I might say that I appreciate your comment about not always talking about a region, but talking about individual countries, because countries are distinctive, and you have to think about it that way. However, at the same time there is a regional problem in Central America, and that is why I think there is a sort of underlying validity to the Contadora process of working at it, and that is why we supported that process. Of course, it is a long way from achieving the results desired, but it has made a great deal of headway, too.

Senator RUDMAN. Thank you very much, and I do apologize being unable to hear the rest of your testimony. I do appreciate your answer. Thank you.

D'AUBUISSON'S ALLEGED ROLE IN EL SALVADORAN DEATH SQUAD ACTIVITIES

Senator KASTEN. Senator Inouye.

Senator INOUYE. Mr. Chairman, I have just one question at this time. I would like to follow up Senator Rudman's reference to the Washington Post. I am sorry, it is the Washington Times, another newspaper here.

Yesterday the Times carried a story that suggested that Ambassador Jeane Kirkpatrick at a recent meeting with my Republican colleagues, a secret meeting, discussed evidence linking the role of Mr. D'Aubuisson with the political murders that have taken thousands of lives in El Salvador over the last several years.

Does the State Department have evidence linking Mr. D'Aubuisson to death squad activities?

Secretary SHULTZ. That is a subject on which there are a lot of allegations and statements by people, but I haven't seen anything that would probably pass muster in Judge Specter's court, if there were one. On the other hand, there are a lot of allegations to that effect.

Senator INOUYE. I am not aware of the validity of the story. But if the State Department does have evidence linking Mr. D'Aubuisson with these activities, what would be the position of the administration if D'Aubuisson should be elected President of El Salvador?

U.S. VIEWS ON SALVADORAN ELECTIONS

Secretary SHULTZ. Senator, I said when I was in El Salvador, and I will say again, that it seems to me the United States needs to make it clear we are not neutral insofar as the process of an election is concerned. We want to see an election conducted on a fair basis, on an open basis, where people have access to the media, there is freedom of assembly, and there are all the things that go to make a free election.

You can't say that you believe in that, and then say that you won't accept the results of it. You have to say that it is up to the people of El Salvador to vote and to choose whoever they want as President. It is their choice to make, not our choice to make.

Obviously, we look around the world and people choose governments, and we have to make our own judgments about those governments. But insofar as trying to say something that undermines my own support for the democratic process as such, I am not going to say that.

Senator INOUYE. Thank you very much.

ECONOMIC ASSISTANCE TO EL SALVADOR

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. Thank you very much, Mr. Chairman.

Mr. Secretary, in proposing the dramatic increase in economic and military assistance to Central America, I am concerned that we may be committing vast sums of money to countries that are not able to absorb such amounts. Let me give you an example of what I am concerned about.

It is estimated that $100 million of unspent U.S. assistance, some of it dating back to 1979, is backlogged in the Agency for International Development's Honduras pipeline. For example, a 1980 project to build 2,100 classrooms in Honduras has only built 300, and these rooms don't have furniture and books. Of the $15 million appropriated for this project, AID has spent less than $3 million. Some business leaders and government officials in Honduras say a massive influx of aid may come too quickly to be readily and positively absorbed.

Mr. Secretary, in the flush of our commitment to respond to challenges facing Central America—and I recognize these challenges, their importance, and that we have to respond to them—I am concerned with the possibility of throwing substantial assistance at recipients who simply cannot absorb it and put these funds to constructive use.

Secretary SHULTZ. Of course, it must be an important question for us to see that funds that are available are used effectively, partly because of the fact that these are very scarce resources that the American taxpayers are putting up, basically, and partly because if they are not used effectively, the follow-on activity that is necessary won't be fundable. So it is very important not to just throw money around, and we have no intention of doing that.

I am a believer myself that in the end that people must take responsibility for their economic development; you can't thrust it on them from the outside. That is the fundamental lesson. I think, as you look around the world, I was just saying, in response to Senator Inouye's opening statement.

However, in these countries there are some identifiable, genuine needs. The Bipartisan Commission identified many. In administering these funds, I can assure you that it will be done with care.

As to the particulars, in the question that you raised, I would like to ask the AID Administrator, Mr. McPherson, to respond.

Mr. McPHERSON. Yes, Senator, I think that it is important to keep in mind, as you look at Central America and the level of program we are talking about there, that this is only 5 percent of the GNP for the period of time which we are talking about, a substantially smaller amount than the days of the Marshall plan for Europe, or for the days when we had a large program in Taiwan and Korea.

In addition, between the oil price increases of 1979 and the drop in commodity prices for the region, every year there is a necessary additional hard currency shortfall of $1.5 billion, substantially larger than the program we are talking about. In short, what you have is a set of economies that have shrunk. Let me just stop here.

On the pipeline, despite a substantially larger program in the last couple of years, our pipeline has grown by 10 percent, which when you look at it is pretty good. There are some pipeline questions, but frankly overall it is pretty sound. I won't get into further details. The Honduras matter, I think, is under control.

POSSIBLE DIVERSION OF U.S. AID IN EL SALVADOR

Senator D'AMATO. Let me simply indicate to you that we are having difficulties spending the moneys that have been appropriated, as documented by the report from Arthur Young & Co. This report was commissioned by AID, and indicates a surprising and disappointing wave of corruption in El Salvador has been diverting unspecified sums of U.S. aid away from the needy in the embattled country.

The report documents the existence of phony invoices, kickback schemes, black marketing, profiteering, and phantom companies that really keep the assistance from going to the people in need. Is it not safe to assume that if we are going to be increasing assistance to the region dramatically in a relatively short period of time, that this is going to increase the opportunity for corruption? I am certainly not opposed to building classrooms, but when I see that we have built only 300 classrooms when 2,100 classrooms were to be built, I am concerned.

There is another concern that I would ask you to address. There are observers who say that if we fund the construction of a hospital, in many ways we leave the recipient country or region with a new, challenging problem. The recipient nation faces the problem of funding that hospital's operation year after year. I know this is a challenging example. However, the cost to maintain facilities is in many cases greater than the ability of the recipient nation to absorb and to pay for. The possibility exists that, with some of these programs, we may be creating certain economic challenges for the nations we intend to benefit.

Finally, I am interested in the actions AID is taking to see to it that the funds we commit to Central America reach the people, and are not lining the pockets of corrupt officials. There is ample documentation that some businessmen are taking money out of the region and banking it in the United States, after making questionable profits at the expense of U.S. assistance programs.

Mr. McPHERSON. Senator, let me make a number of points there. The Arthur Young report, requested by the Central Bank and paid for by AID, was I think, a sound management tool for the bank to see how it could improve. I believe that an overall reading of that report suggests—in fact, I know there is wording in there that says—that the bank is doing a pretty good job.

There are some things that need to be improved upon. The bank has taken a number of steps to do so. I really think that it is not correct to say, as some have, and I know you haven't, that there is massive corruption involved here. That just isn't the case. The margin is small. Indeed, we know that the capital flight from El Salvador has dramatically dropped from the highs of 1980 and 1981.

As to the Honduras school project, that was again an Inspector General report that our mission there asked for, and some 11 out of the 13 recommendations that our Inspector General audit report made have now been completed, and that is our general pattern. We use our auditors the way business people use their auditors, namely, to go in and find problems. Fortunately, or unfortunately, our recommendations to those auditors are very public, but they are helpful to us. By and large, we think that that program is fairly tight.

We do feel that the economic assistance program in El Salvador has gone a long way to address the problems, and more assistance will do more so. Most of the assistance to El Salvador has, in fact, been stabilization money, balance of payments support under a very difficult situation in the last couple of years. El Salvador has gone from a very deep drop in GNP in the early part of this decade to just about stabilization this year, and we hope for 1 or 2 percent growth next year.

The bottom line, it seems to me, to the question of whether this program has worked, is that the measure is there.

Senator D'AMATO. This Senator is concerned, as I am sure my colleagues are, that those moneys which we do make available for economic assistance to other nations reaches the people in greatest need.

If we are talking about the building of schoolrooms, let's build the schoolrooms. If we are talking about building an electrification project or a water project that is going to help people, then let's make sure that construction takes place.

I would just suggest that with the commitment of any resources, we should keep in mind the recommendations of the Arthur Young study. I commend you for undertaking such studies. It is better to know what corrective steps are necessary for efficient operations, than to work under a false illusion of sending money down there for good and noble purposes, when in reality that assistance is not reaching its intended destination to the extent that it should.

So I commend you for at least commissioning the studies, but I also urge that AID be vigilant in seeing to it that our assistance reaches the people in need.

Mr. McPHERSON. Sometimes, Senator, not here obviously, because there are many other people with questions for the Secretary, but I think perhaps you would be willing to sit down with me and let me go down project area by project area, and I think you will see that the questions that have been raised are really exceptions to the rule. In fact, there is excellent delivery for the broad spectrum of the activity in that country. I appreciate your interest.

Secretary SHULTZ. Let me make a comment here.

I think that audits, internally generated audits and externally operated audits by certified public accountants, or some such group, are an essential tool for management. I promoted that concept in organizations where I have worked, and I have seen it operate in some of the best run private organizations in the world. I have yet to see an audit that didn't find problems. The point is to be willing to look at them in the face and to do something about them, and that is the way you keep improving.

Senator D'AMATO. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator KASTEN. The Senator from Louisiana.

MILITARY ASSISTANCE CONTINGENT ON HUMAN RIGHTS IN EL SALVADOR

Senator JOHNSTON. Thank you, Mr. Chairman.

Mr. Secretary, as you know, I am your supporter, both publicly and privately. I believe you to be a man not only of skill, but of goodwill. I want to say that because I want to emphasize that what I am going to say is not confrontational at all.

Secretary SHULTZ. I know when I am being set up. [Laughter.]

Senator JOHNSTON. My distinguished colleague here, Senator Inouye, made an excellent speech on the floor of the Senate yesterday, which I commend to you. One of the central points he made was this: The United States must be prepared to terminate our military assistance program to El Salvador if the leaders of that country do not curb corruption and dismantle death squad structures.

In that statement is a political rubicon of sorts in that if you are, as a politician, cautious and conservative as we are, prepared to terminate aid to El Salvador, then you must be prepared to see it go down to the guerrillas.

To be willing to do that is as a politician indeed crossing the political rubicon. Who lost China? Who would lose El Salvador? Who wants to be in that boat? Cautious politicians don't make that kind of judgment easily.

I want to tell you, however, Mr. Secretary, that I and, I think, a number of my colleagues, have crossed that rubicon. I am ready to terminate aid to El Salvador unless that country curbs corruption and dismantles death squad structures. I have not come to that judgment easily.

It was here 2 years ago when I asked you, or someone in the Department, what happens if we terminate aid. In a diplomatic way they said that it would probably go Communist. I have worked with various alternatives, and iterations, and structures, and words about how do we get a better response from El Salvador. In my judgment that response has been either not forthcoming at all or insufficient.

I want to work with you, with our ranking minority member, with our chairman, with anyone else to try to come up with a structure that gets a better response from El Salvador. I am not prepared to write off that attempt. I want to work with you.

What we have been doing in my judgment, or what the results have been—maybe the efforts have been sufficient, but the results have been insufficient. It just hasn't worked so far. I believe fundamentally and profoundly, we must change the way we act toward El Salvador, and if that takes putting the heavy hand of America into the free political system of El Salvador, so be it.

You know, democracy is not the answer to everything. I don't think we have to be just hands off with D'Aubuisson and act as though he is a great Democrat or a great Republican, who is committed to free expression. I think that we had just better tell those people and tell them very plainly that being against the Communists is not enough. After all, Hitler was against the Communists as well.

I just wanted to state that this is the way I feel. I suspect you have begun to suspect that yourself.

Let me ask you this: Are you willing? Are you prepared, in Senator Inouye's words, to terminate our military assistance program to El Salvador if the leaders of that country do not curb corruption and dismantle death squad structures?

Secretary SHULTZ. Yes.

Senator JOHNSTON. You and I are on the same side.

Secretary SHULTZ. I gave you an unequivocal answer, but then I want to make some comments about it.

I say, yes, because, I suppose, out of my labor management experience, if you are trying to do something as a union and it is well known that in the end you won't strike, you can forget it. Or if it is well known in the end that as a management you will never take a strike, you can forget it. You are going to get pushed all over the place. That is what has happened in a lot of our industries.

Senator JOHNSTON. I think that that is exactly what has happened in El Salvador.

Secretary SHULTZ. People have to recognize that there is an ultimate sanction.

I was taught in the U.S. Marine Corps, when I was first handed a rifle, that you never point a rifle at anybody unless you are willing to pull the trigger. If you are not willing to pull the trigger, don't point it. I think there has to be a sense of the reality here.

Words like corruption are very loose words. Are you going to tell me that there should never be any Federal funds flow to the State of Louisiana if there is any evidence of any corruption whatsoever in the State of Louisiana? [Laughter.]

Secretary SHULTZ. Answer yes or no. [Laughter.]

Senator JOHNSTON. Yes or no. [Laughter.]

Secretary SHULTZ. Life is full of ambiguity, and you have to use common sense in applying these things, and what you are talking about.

We are all very critical of El Salvador. At the same time, I think that there is another side of this coin. If you go back 3 or 4 years and look at the history, you can see that there has been a great deal of progress along the lines of the things that concern us. We feel, all of us, that it is too slow, and that it hasn't been enough, and so on, but, nevertheless, it has been there. If you take a reasonable period, some of the things have been rather dramatic.

Senator JOHNSTON. Depending on whose figures you take.

Secretary SHULTZ. Almost by anybody's figures. It is different depending upon the figures, but there has been a very dramatic change, this in the face of a guerrilla war and terrorist activity.

We all know, and here there is a more general problem that is on my mind, and that is that terrorist activity is an ultimate deprivation of human rights. It destroys the ability to maintain law and order, and the elements of civilization. People react to it, and they react very strongly. We know certainly of many countries that have reacted with excesses that are unacceptable to us. I think, nevertheless, you have to find your way properly to some rule of law within which you react to these kinds of activities.

LAND REFORM PROGRAM

I was being questioned a few minutes ago about the land reform program. So here is somebody who has finally gotten himself a piece of land, and he can't make anything out of it. Why? Because the crops are ravaged by guerrilla attacks of one kind of another. That is a deprivation of human rights, and you react to that.

You lay down certain criteria that are difficult to interpret and say yes or no. I would have to tell you that I think we have to use judgment, we have to use patience, while having said to you that in the end they must know that we are willing to walk away, but not easily and not without exercising a lot of patience.

Senator JOHNSTON. I understand that.

As of 2 years ago, had I been sitting in your seat, or as of a year ago, and I looked up and saw myself or others on the committee, I would say that they would never cut off aid to El Salvador because they know that the bottom line is that it could go to the guerrillas, and they won't do that no matter what happens. You would have been right in that judgment.

I don't think that that is correct today. I think in El Salvador the D'Aubuissons of this world as of today would look at the United States and say, they will talk a lot, there will be a lot of rhetoric, but there is no way that they are going to cut off aid no matter what happens.

In other words, they have not heard that answer that you just gave, and they don't really believe it. They believe like that union negotiator that they will never have to strike, or they will never exercise, they will never pull that trigger no matter what happens.

I think that it is very important that we signal a very fundamental change. I could give you all the signals we have sent, but there is no need to go through that litany, you know it as well as I. It would be partisan and confrontational to do so. You know what those signals have been, and those signals have added up to the fact that the United States will not cut off aid.

I believe fundamentally that we have got to communicate that signal to them, and then work together patiently, as you said, to find a way to improve the situation. In my judgment, it has not improved enough.

Secretary SHULTZ. That can be obviously a question of differing views. I don't think that this is a change of signals. The Vice President went there and laid it right on the line that there had to be improvement or support would stop. That has been said in this room by me, or maybe it was one of the others, I don't remember which committee, in response to an exchange with Senator Leahy, as I recall. I think that that has been our policy.

Whether there is sufficient progress is a matter of interpretation, and I think we should be very reluctant to withdraw our support. It is not something to go to except as a very last resort in my judgment. I only answered the question that I did in order to show the other side of the coin as well.

Senator JOHNSTON. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator KASTEN. The Senator from Pennsylvania.

JUDICIAL REFORM IN EL SALVADOR

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, I begin by complimenting you on the outstanding job you have done, and thank you for the continued cooperation not only at these sessions, but on followthrough.

I would like to pursue the efforts on El Salvador in trying to structure some way for getting specific improvement there. My sense is that the cut off of 30 percent of the aid to El Salvador, unless the verdict is reached in the case involving the four U.S. churchwomen, is a very specific way. I believe that they are on track, and they are doing more because they see $21 million going down the drain unless they act.

On the other hand, in the same law which put that 30 percent limitation on, there was an earmarking of some $3 million for judicial investigative capabilities and protection of key participants in pending legal proceedings, and as I was advised as recently as yesterday afternoon that not one dollar of that $3 million has been spent.

I agree with you that justice requires justice for El Salvadorans as well as for U.S. victims. The issue then is how to get their judicial system in gear, which means investigations to acquire evidence to lay the base for prosecution.

POSSIBILITY OF INVESTIGATIVE FORCE UNDER CONTADORA AUSPICES

The question that I have for you is on the subject that I raised in my letter to you of December 14, 1983. I realize the tremendous schedule and pressure that you have been under. This is a specific approach that I think would provide a mechanism for getting the investigation and putting teeth in it, when I wrote to you proposing an independent investigative force under Contadora auspices, and drawn from all Central American nations, including El Salvador, to identify and obtain evidence against all terrorists with ties to any government or military. Further that Salvadoran acceptance of such an investigative force would be an expressed precondition of continued U.S. aid. I would like to know your thinking on such a proposal.

Secretary SHULTZ. Any comment that I make has to be put into the context of total agreement with you about the importance of the kind of judicial process that we would like to see. I don't have any difference of opinion with you on that.

If you hook aid to too many things, as we are inclined to do, and in this case to the production of some kind of investigative unit out of the Contadora process, it seems to me that you are creating something that is administratively very questionable.

The Contadora process is something concocted for the sake of trying to attain some stability in the area. It has a difficult enough role in achieving the results that it has gotten to date.

It is not an administrative unit in any sense, it is simply the coming together of the foreign ministers with the support, obviously, of their heads of state to try to push along, first, toward these 21 principles, in the form of working groups, to try to get them more operational, problems of internal security, these are part of the problem that they are working on. I think to ascribe to that group the capacity for an administrative chore like this, and hook El Salvador into it, is asking a lot.

Senator SPECTER. But it could be an umbrella for investigation leading up to prosecutorial action. The difficulty is to find some way to get it done. The El Salvadoran judicial system and their investigative personnel simply do not act on matters that are pending before them.

They do not go out and acquire the evidence to lay a basis for prosecutions, and that is the difficulty with the death squads. So it is a search to find some alternative way to get it done. It doesn't do any good to put up $3 million and say, use it, because they haven't.

PROGRESS IN DEATH SQUAD ACTIVITIES

Secretary SHULTZ. First of all, I keep coming back to, I guess, a difference of opinion about what the facts are and how to judge them. There has been a very considerable amount of progress in the so-called death squad type of activity in recent months, since the Vice President's dramatic visit and comments there. There has been an impact. It is not something that is going by the boards, and there is no impact at all. That is a first point.

SALVADORAN REFORM MUST COME FROM WITHIN

A second point is that it seems to me that in the end if there is to be a good investigative and judicial process within El Salvador, we have to figure out how to have it grown from within. It has to be something that the people of El Salvador support strongly enough so that it takes its own roots, and not something that depends entirely on what comes from the outside.

I suppose one would have to say: Why don't you apply this to Nicaragua? Why don't you apply this to Guatemala? Why don't you apply this to wherever? It seems to me that the essence of the matter is that countries in the end have to run themselves, and what we want to encourage as best we can is running themselves in a way reasonably in line with certain things we are trying to support, and perhaps also adopt a slight amount of humility about the superior ability of people who live there to know what is good for them in the end.

CONGRESSIONAL REVIEW OF U.S. MILITARY ACTION IN THE STRAITS OF HORMUZ

Senator SPECTER. Mr. Secretary, I would submit a number of questions in writing on Central America, but in view of the time limitations I would like to broach a subject on the Mideast in light of the very substantial amounts of foreign aid requests for that section of the world, focusing particularly on the problems in the Straits of Hormuz at the present time where there have been a number of incidents, and there is a real question about the use of U.S. military force.

The concern that I have is the ongoing problem of acts of war which do not follow a declaration of war by the Congress, going back to Korea, Vietnam, Lebanon, and a concern that I have about Congress to act when there is time for the Congress to express itself.

There are many in the Congress who have commented in the War Powers debate over Lebanon that there was disagreement with the President's going into Lebanon, but once there he would be backed, which may be sincere, or it may be a copout. My own sense is that in an emergency, obviously, the Executive has to act, but in the absence of an emergency, on the deployment of a peacekeeping force, my sense is that we were unable to make that stick because of so much division of opinion in the United States.

I would defend Speaker O'Neill's right to criticize the President, but it was an impossibility for Mr. Rumsfeld and others to carry out a policy when the Syrians knew, the President had expressed it on one occasion, that the United States was out of breath, automatically saying that we were about to withdraw. If there had been broader congressional support in advance, I think our policy in Lebanon would have been much more solidly based.

I think the Constitution provides for the congressional action because we have a great many more contacts with the constituency of the country, and we have learned that you can't fight a war in Vietnam or take action in Lebanon without strong public support, which brings me to the concern as to whether or not the Congress ought not now to be acting to define the situation under which a force, which may amount to acts of war, should be used in the Straits of Hormuz.

Wouldn't it be an appropriate exercise of congressional constitutional authority to take up these issues and, perhaps, if the emergency arised, to lock the doors and debate it out, under a limited agreement, and to express ourselves by a vote, instead of taking pot shots after the fact and disagreeing with administration policy?

Secretary SHULTZ. I think that any subject that the Congress wishes to take up, it should take it up. Sometimes the hearings will have to be held in private session, but I think Congress ought to take up whatever it wants.

My observation is that no matter how much debate, assent, and so forth, it is not going to avoid pot shots after the fact if things go wrong. It is a privilege that you get by being elected as distinct from appointed. That is a fact of life, I recognize that and accept it.

IRAN-IRAQ WAR

I think that the situation that is a consequence of the Iran-Iraq war is a matter of great importance, and it is in a sense a kind of irony that we have paid little attention to that. It is seldom that I get asked a question in the hearings about it.

There have been more people killed in that war than anything in recent memory, there are huge numbers of forces—I was going to give you the number, but I guess I won't—that are ranged against each other there now, with potential fallout on our interests and other people's interests as the thing spills over. We have to pay attention to our interests. Obviously, we want to pay attention to them, attention to them diplomatically. There is also a role for force. I am sure we can debate that subject.

RESULTS OF IMPOSITION OF WAR POWERS

My own feeling is that the operation of the War Powers Act in Lebanon constitutes an example of how not to do it. I think it was an exercise in getting the executive branch so tied up that it was hard to do sensible things, that probably everybody supported, because of the process of consultation that you have to go through, all of which is public, no matter what room you hold it in, it makes it impossible to execute the policy.

I think the Lebanon example raises serious questions about the present structure of the War Powers Act. I am not in favor of the way it operates at all personally. I don't speak as a lawyer about constitutionality and all of that, I leave that to you. I am just talking about how it affects the policy process.

INCREASED INTEREST IN THE PERISAN GULF

As for people informing themselves about the problems in the gulf and the straits, and what the interests of the United States are, and what kind of plans we have, and so on, I think that that is important.

We would welcome an interest in that and opportunities to inform people.

Senator SPECTER. Mr. Chairman, will there be a second round?

Senator KASTEN. There will be a second round, Senator.

Senator SPECTER. Thank you, Mr. Chairman.

CONGRESS DEALING WITH WAR POWERS

Senator KASTEN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman. I applaud you for having these hearings, and as thorough ones as they are.

Mr. Secretary, I might suggest that there is another view of the operation of the War Powers Act in Lebanon, a view that instead of hindering anything, it was probably one of the most gutless actions on the part of the U.S. Congress in trying to face up to the War Powers Act, the first time the War Powers Act was actually faced since Vietnam.

The War Powers Act was passed by an awful lot of Members of Congress who claimed to have been closet opponents of Vietnam and were proving that now by passing the War Powers Act a few years ago. When they had to face up to its use, what they did was to say, we will come right back courageously to this issue again, right after the congressional and Presidential elections 18 months from now.

So I am not sure the War Powers Act was all that much of a hindrance. I suspect that perhaps it was more the concern of the American people, concern felt by a number of Members of Congress after they finally went home and actually talked to the people they represent, instead of interviewing each other—something I would encourage the press to do, too—they felt differently.

CONCERN FOR POSSIBLE RIGHT WING TERRORIST ACTIVITY IN EL SALVADOR

On the subject at hand, I suspect that you and I both feel a certain sense of deja vu as we hear the discussion, the questions, the testimony, and so on, on El Salvador and Central America.

You have made some strong statements about the threat to democracy in El Salvador from both the left and the right. I agree with you in both instances.

You said that "The task of blunting these extremes takes not only effort to strengthen democracy, but also requires professional security forces in a system of collective security which can protect people and the rule of law." I think we would be hard put to find anybody who disagrees with that.

In an even stronger statement, Ambassador Pickering said to the Chamber of Commerce in San Salvador:

> There has been little doubt about the commitment of the authorities in dealing with the terror by FMLN. What has distressed my government is the lack of parallel action by Salvadoran authorities against those who murder and kidnap university professors, doctors, labor leaders, farmers, and government workers.

The military aid request, which is a long list of the usual equipment, helicopters, fixed-wing aircraft, communications equipment, ammunition, what part of that equipment is going to be used in the fight to control the terror of the right?

CONCERN OVER TERRORIST ACTIVITY IN EL SALVADOR

Secretary SHULTZ. I think there is a very definite sense in which we feel the commitment of the Government of El Salvador, and it includes that commitment, so it is part and parcel of what they are trying to do.

In quoting statements of our Ambassador, or of me, or of the Vice President, on the one hand, we are expressing our very clean-cut concern and effort. So statements that we are not trying are, in a sense, proven wrong by the statements. The statements themselves, on the other hand, are taken against the context of dissatisfaction that more hasn't been done, but nevertheless recognizing that the situation is one that does have very definite progress in it. You have to kind of keep the pressure on without throwing away the game.

Senator LEAHY. Mr. Secretary, there was discussion here today apparently Ambassador Kirkpatrick, in a statement to a group of Senators——

Secretary SHULTZ. I am commenting on newspaper reports about alleged secret meetings.

Senator LEAHY. Have you talked to Ambassador Kirkpartrick at all about that issue?

Secretary SHULTZ. I have talked with Ambassador Kirkpatrick about a great many issues and see her. She has been very busy in the United Nations lately, coping with this latest resolution.

ALLEGED LINK OF D'AUBUISSON TO DEATH SQUAD ACTIVITY

Senator LEAHY. To your knowledge, has Ambassador Kirkpatrick ever said to anybody that we have evidence linking D'Aubuisson with the right wing death squads?

Secretary SHULTZ. Not to my knowledge. I don't know about this meeting that the newspaper has written up. I have absolutely no knowledge about it.

Senator LEAHY. Mr. Secretary, would you be surprised if I told you that members of this committee—I suspect virtually every member of this committee—and others have seen evidence that at least establishes a link between Mr. D'Aubuisson and the death squads?

Secretary SHULTZ. I am aware of the fact that there are a lot of allegations, and there is a lot of material around about that subject. How conclusive it is is a question mark in my mind.

Senator LEAHY. I understand.

Secretary SHULTZ. I have been called to account and have discovered that I was facing a bunch of lawyers here. I remember one session, to my chagrin, I made a comment about it.

PROGRESS IN U.S. EFFORTS TO CURB DEATH SQUAD ACTIVITY

Senator LEAHY. I recall that session.

Secretary SHULTZ. I do think that standards of proof, and so forth, that are insisted upon over in one arena, ought to be applied in other arenas as well.

Senator LEAHY. I absolutely agree. I looked at the evidence that we provided for the Salvadoran Government against the people who murdered the four churchwomen down there, and as a former prosecutor, I thought that the evidence was pretty conclusive. But, apparently, they require a higher standard because we have yet to see anything in the way of a trial of those people.

It is a serious problem, and we went into some of it with Senator Johnston here today. I raise it primarily because you had said, I think a week or so ago, when he expressed a concern that we were indeed losing in El Salvador, because we were supporting a government which has lost the hearts and minds of the people, that you were not sure how he came to that conclusion.

I read the articles about the death squads in the Albuquerque Journal, the article in the Wall Street Journal. Just reading in the open press, and press that is considered a pretty well qualified one, of a real concern. Unfortunately, sometimes we can sit in these rooms and it becomes kind of an exercise. You read statements, we read statements, and it goes back and forth, and we sometimes forget that we have real-life tragedies. Let me give you just one example.

PROTECTION OF U.S. CITIZENS ABROAD

Written death threats have been received by a group of professional agronomists who work with our own AID land reform program. Let me read you part of the letter, an English translation. It says:

> The high command of the Salvadoran Anti-Communist Army, after making an analysis of the present chaotic situation in which our beloved El Salvador lives due to the brutal actions of the FMLN criminals, wrongly aided by the Reagan administration through AID, the condition on human rights and the continuation of experiments in reform, has decided not to wait with its arms crossed. The intelligence service of the Salvadoran Anti-Communist Army has information that you and others are involved with the plans of the badly conceived agrarian reform financed by AID. Therefore, the High Command of the Salvadoran Anti-Communist Army considers you undesirable and dangerous to the interests and sovereignty of our beloved country, and consequently has ordered your execution by one of our squads 30 days after the date of this notice which will be the only one you will receive.

This goes a little bit beyond the printout letters that we get if we run behind on our American Express card. Certainly, the people who received the letter weren't political. They are certainly not members of the guerrilla forces. They are working with AID. They have written to Ambassador Pickering. He has been busy, apparently, and he has not responded to their letter.

Do we have a responsibility to protect such people?

Secretary SHULTZ. First of all, Senator, if the import of your question is, is there such a thing as a death squad, the answer is "Yes." Second, is it believable that a threat of that kind was issued by somebody? The answer is "Yes." The question we are trying to focus on is whether or not any kind of reasonably effective effort has been made in getting at that kind of activity. I think the answer to that question is also "Yes."

Insofar as do we have an obligation to protect these people——

Senator LEAHY. That is my question.

Secretary SHULTZ. Obviously, we must be concerned about American citizens, first of all, wherever they are, and particularly if they are in a foreign country, at the invitation of the foreign country, trying to administer a program, we must be concerned about their safety.

I would like to think that we are concerned about the safety of human beings generally, not just Americans, but Americans have to be our first priority, and they are. We worry about those problems a lot.

POSSIBLE THREATS TO LABOR LEADERS

Senator LEAHY. Mr. Secretary, it is not the first time that such a threat has been issued. I think in October AID asked for an allocation of $200,000 to provide bodyguard protection for labor leaders who had been working with U.S. programs in El Salvador, protection necessary, according to Mr. McPherson, because Roberto D'Aubuisson had threatened these U.S. supported labor leaders on television.

Mr. McPherson is here, if he disagrees with that having been the reason for the request for the $200,000, then perhaps he would like to tell us what was the reason for the request of $200,000.

Secretary SHULTZ. Mr. McPherson just happens to be here.

Senator LEAHY. That is why I raised the point.

Secretary SHULTZ. He can comment on the accuracy of your statement.

Mr. MCPHERSON. We did indeed think that there were serious security problems with respect to various labor leaders, and so we did provide and continue to provide security for some labor leaders in that country. I never made a statement of the exact nature that you are suggesting, nor did we comment on the whole matter publicly much beyond what I have just said, Senator.

Senator LEAHY. The protection wasn't necessarily partly because D'Aubuisson had threatened them on television, that had nothing to do with it?

Mr. MCPHERSON. Part of the environment——

Senator LEAHY. That had nothing to do with it, Mr. McPherson?

Mr. MCPHERSON. Part of the environment, Senator, that was prevalent at that time were some statements that were made by a number of people, including the gentleman you mentioned.

Senator LEAHY. What gentleman was that, Mr. McPherson?

Mr. MCPHERSON. D'Aubuisson.

Senator LEAHY. I thought so.

Mr. MCPHERSON. But the overall security situation in the country, and the various threats, many of which were private, were of great concern to us. We were not trying to suggest that any one individual was involved, but rather we were worried about the people whose lives we thought were at stake.

Senator LEAHY. Thank you.

EL SALVADOR CERTIFICATION

Senator KASTEN. Senator DeConcini.

Senator DECONCINI. Mr. Chairman, thank you.

Mr. Secretary, I have a couple of questions I would like to address to you. Let me first say, I don't pretend to be an expert—a little amount of knowledge is dangerous. Having spent 6 days in Central America, I came back with mixed emotions.

First, I want to compliment you and the administration on the quality of ambassadors that we have serving there. I was deeply impressed with their knowledge, with their willingness to help Congressman Aspin and me to visit on both sides of the political spectrum and economic spectrum there, and they were extremely helpful and quite candid. That is a tribute to the administration.

My first area of concern is regarding the human rights which has been gone over at great length here, and the certification process. Last year, Congress passed a certification requirement, which the President vetoed. If I am not mistaken, you recommended that he do that.

If a human rights certification process was a condition on any appropriation that was approved by this committee, can you give us your opinion as to whether or not you could live with it, whether or not you would suggest that the President veto it, and whether or not you can participate in helping construct a certification process that you feel will indeed force the State Department and our Government to make a valid, and adequate analysis of the improvement of civil liberties and human rights, and not foreclose our continued assistance, providing there is improvement.

Secretary SHULTZ. First of all, Senator, I like to think that nobody has to force me to be concerned about the defense of democracy, human rights, and the rule of law. I don't need any force to do that.

Senator DECONCINI. I am not saying that, Mr. Secretary.

Secretary SHULTZ. I do that all the time, and I do that because that is my belief. I don't need the Congress or the President, or anybody else to tell me what I believe on that subject. That is the first point I would make.

The second is, insofar as any recommendations I make to the President on vetoing or not vetoing a bill, I never make a comment on that subject. There have been a lot of rumors around, and I don't have any comment about what my recommendations are. I make them, the President makes his decision, and I support the President's decision.

Third, on the question of whether or not we are prepared to work with the Congress to find our way through this problem, and how best to link the support that we are prepared to give to the security and economic development, and political reform of El Salvador to the evolving and improving conditions there, obviously, yes. We are very much interested in working with you on that.

We think that there is a great deal to the subject. There is genuine benefit from the obvious fact that the Congress is deeply concerned over this. We think that it also is beneficial for the people in El Salvador to have seen, as a result of the President's veto, that after he vetoed it the President was just as concerned as before and went out of his way to have the Vice President go there and really put a lot of pressure on them. There is a benefit from that because it makes the broader point.

The broader point being that this is not just a matter that the Secretary of State is working on because the Congress is beating on him. It is a matter that we are working on. I believe I am answering the question implicit in your shaking your head, Senator. Certainly we are ready to work on the subject.

Senator DECONCINI. Mr. Secretary, I am sorry that you reacted defensively to my question. I was attempting to find something that would satisfy this Senator to support the Kissinger recommendations and the increase in your fiscal year 1985 request.

I have to respond that I am disappointed that we can't have a dialog here on this Senator's point of view that the administration has played both sides of this issue. They vetoed the certification process, realizing the significant disagreement among Members of Congress of their own party, but then they immediately dispatched the Vice President to El Salvador to present a list of seven human rights conditions, which is a very positive thing.

It seems to me that maybe we can find some common ground where we can have a forceful Vice President presenting such demands on the government, and at the same time construct something legislatively that would be positive. I talked to the Minister of Defense in El Salvador, the President of the country, and others, and they all said that the reason the political violent deaths are down is because of the United States insistence on human rights policy, including certification. It was told to me, I presume that this has been told to you, and it was told to our ambassador there in my presence, I believe this is a very strong reason to construct something that is going to continue to provide that kind of pressure.

I am not here to condemn you, and I am not here to criticize you, or leave any aspersions on your commitment to human rights. I know you well enough, and I think you have spoken very eloquently on the human rights issue. What I am trying to do is to find some common ground so we can see this program passed and funded, and also satisfy the conscience of many, many of us who feel that certification is a necessity. That is all I am suggesting.

Secretary SHULTZ. As I said, we are very much prepared to work constructively along those lines.

ABILITY TO ABSORB U.S. ECONOMIC ASSISTANCE

Senator DECONCINI. Second, I know that the Senator from New York discussed the ability of the Salvadoran Government, the private sector, and the society in general to accept the massive increase in foreign assistance that is being suggested both in the 1985 budget and certainly by the bipartisan Kissinger recommendations.

Do you have, Mr. Secretary, or do you anticipate putting together a set of procedures or some type of process that will be different than is used today to disburse these funds? If so, can you give us some idea of how that is progressing, because without some improvement, I would find it very difficult to support additional funding.

I do agree with the Commission's report that it is in our best interest to do something constructive economically there, but I find real inadequacies in the ability of many of those countries to absorb this type of increased assistance.

Secretary SHULTZ. If I may, I would like to ask the person who is going to be directly responsible for administering these funds to respond to that question, Peter McPherson.

Senator DECONCINI. That is fine, Mr. Secretary. Thank you.

Mr. MCPHERSON. Thank you, Senator.

I think when we look at the absorptive capacity in Central America, the capacity to utilize fully these funds, it is important to put it in the context that the full amount for the 5 years is about 5 percent of the GNP for the region, which is substantially smaller than what was put into Europe during the Marshall plan, and Taiwan and Korea when there was a large foreign aid program.

There has been a drop in commodity prices since 1979, and an increase in oil prices since then which means a net loss or need for about $1.5 billion of additional moneys. What has happened is that those economies have just shrunk because of the lack of money. So in putting this additional money in, in fact, we think it is going to be well used. The economies can use it, particularly if we use it, in the initial years particularly, as a substantial balance of payment effort.

As to whether or not the balance of payment moneys have been or will be well used, as opposed to whether or not the economies are sufficiently large to be able to use them, frankly, I think the evidence is that they will be able to be well used.

PROCESS FOR DISPENSING FUNDS

Senator DECONCINI. My concern, Mr. Secretary, is the process and procedures for dispensing the moneys. I don't doubt that the economies need it, that is very clear. I appreciate your raising that and the oil problem. I am aware of that from briefings I have had from your Department. My concern is the actual process and procedure.

When you deposit money into the Central Bank, if that is how you decide to do it, what process and procedures are you going to have to insure the taxpayers that when that private business person comes in and wants to buy something from outside the country that, indeed, it is going to be delivered at the contract price, and not going to be misused or abused, and be distributed in the society?

That is my question. After being there, I have great qualms as to how that can happen. Perhaps you have some idea of the procedures that will be followed from the standpoint of American aid, whether it is in the private sector or the public sector.

Mr. McPherson. What we have done in El Salvador is have a price checking unit, a unit which looks at the transactions to make an estimate as to whether or not the price is appropriate, so as to avoid, in effect, money flowing out of the country. That unit is reasonably sound, but pursuant to the Arthur Young report, asked for by the bank, the unit should be strengthened further, and it is the Central Bank's intention to do so. Indeed, all of those recommendations, certainly the primary ones, the bank is committed to fully implement.

Our figures suggest, Senator, though they are certainly not absolutely exact, that the capital flow from El Salvador has gone from as high as $500 million in 1980–81 to about $20 million in calendar year 1983. I think, in short, that this problem is a nominal one. It is not eliminated, but it is now a nominal one.

Our balance of payments program that we have pursued in Israel, Jamaica, and in a number of other countries, and in El Salvador, has basically functioned pretty well, and that is an important part of what we would continue to do under our proposal.

Senator DeConcini. Mr. Chairman, I have other questions, but I see that my time is up.

SALE OF STINGERS TO JORDAN

Senator Kasten. I would like to advise the members of the committee that the Secretary has been here for roughly 2 hours. We promised that we would get him out of here at about noon. What I will do is switch to a 5-minute rule; we have about five or six of us left, that would make it one more round. Then we do have time available, we will try for some kind of a short-cut procedure.

Senator DeConcini. Thank you, Mr. Chairman.

Senator Kasten. Mr. Secretary, the Congress is considering two major proposals for Jordan, the Jordan Logistics Program (JLP), and the sale of Stinger antiaircraft missiles. It is my understanding that the informal notification process has come to an end, and that today we are likely to receive the formal notification for the Stinger missile program.

As you know, Congress has had some deep concern with regard to both of these programs. It is fair to say that we have expressed that concern about JLP in the previous defense appropriations bill. I think you probably know that there is even more concern about the possible sale of Stinger missiles.

I, for one, will not support the JLP as long as the Stingers are part of the package, or if there are any sales of that weapon to Jordan outside of the deployment program. I know that a number of my colleagues feel the same way.

I feel that the Stinger is an ideal terrorist weapon. It simply adds to the problems that we have in the region, particularly the problems of Israel defending itself. In fact, it is my belief that the Stinger missile should be supplied only to countries, such as members of NATO, with whom we have defense agreements.

I would like to invite your comments on this matter, and I am particularly interested in the administration's priorities between the JLP and the Stinger missile sales.

JORDANIAN SECURITY

Secretary SHULTZ. The President supports both strongly, and the reasons are different in each case.

Insofar as the capability of Jordan to defend itself is concerned, Jordan's problems are not problems with Israel. Jordan's problems are elsewhere, and I am sure that it sees the buildup of armament in Syria as a very threatening proposition.

It is clear that Syria, first of all, reacted so strongly against the possibility of King Hussein entering into the peace process with Israel last April because Syria simply does not want to see that process go forward. They have reacted very strongly against an agreement between Lebanon and Israel for the same reason.

As King Hussein tries to construct a Palestinian delegation that will be of such a nature that he can take it into the peace process with Israel, he will be vigorously opposed by Syria. We know that.

So the security concerns of Jordan, we consider to be quite legitimate and important for the sake of Jordan as such, and for the sake of the peace process with Israel. So that is the basis for, basically, the President's support for security in Jordan.

Jordan has an impeccable record of keeping weapons out of the hands of terrorists. Furthermore, steps have been taken that I think you are familiar with, Mr. Chairman, that give some extra insurance in that regard.

JORDAN LOGISTICS PROGRAM

The Jordan Logistics Program is of a different sort, and it is fundamentally oriented to concern about conditions in the region generally. Again, it is so constructed that it is not in any sense directed against Israel in any way whatever, and it is so constructed that the airlift aspects of the program are such that they can only be undertaken if the United States is ready to do so.

So we think that both programs are well safeguarded, and they are both extremely important. The President supports them both.

JORDANIAN ASSURANCE TO UTILIZE STINGER PER AGREEMENT WITH U.S.

Senator KASTEN. Mr. Secretary, in the past we have seen that the terrorists like to use hand-held antiaircraft missiles such as the Stinger. The Soviet SA-7 is in the hands of terrorist organizations all over the world, and such groups, I understand, have tried to get a hold of similar American missiles.

Clearly, if these missiles fell into the hands of terrorists, it would pose a serious danger not only to the Israelis, but I think, you could argue, to commercial aircraft throughout the world.

Before 1967, Jordan promised not to move American-supplied M–48 tanks to the West Bank, but as soon as the war started, they violated the agreement and sent them across the Jordan River. Under these kinds of circumstances, with this kind of history, how can we trust the Jordanian assurance that they will in fact keep the Stinger out of the hands of terrorists and will not in fact use the missile in ways that are contrary to the American point of view?

Secretary SHULTZ. Because they have kept weapons out of the hands of terrorists, because we have taken steps to improve our own capacity to see that that is so, which they agree with, and because it is in their interest to do so.

Senator KASTEN. Senator Inouye.

Senator INOUYE. Thank you.

Mr. Chairman, I wish to associate myself with your statement in opposition to the sale and transfer of the Stinger to the Jordanian Armed Forces. I would be pleased to join you in any effort, legislative or otherwise, to make sure that this transfer is not consummated.

SIZABLE CONCERN PLACED ON EL SALVADOR

Mr. Secretary, the measure before this committee has a total tab of about $17 billion, and that is for the fiscal year 1984 supplemental and the fiscal year 1985 request.

Secretary SHULTZ. My arithmetic slipped until you added that up.

Senator INOUYE. The amount that is requested for El Salvador for the 1984 supplemental and the 1985 request is $785 million, about 4.5 percent, yet we have spent over 90 percent of our time here, as you have noted on El Salvador. I would hope that these statistics are duly noted not only by the Government of the United States, but by the Government of El Salvador. I think that it should indicate the degree and intensity of interest and concern on the part of many of our colleagues here.

DENIAL OF VISAS TO SALVADORANS

I have just one question, sir, and once again it is on El Salvador. I am certain that the Vice President of the United States did his best and was convincing in setting forth the concerns of our country on the activities of death squads. I am certain that your statements have been readily noted, and that the activities here have been noted by the Government. But there are some who have suggested that all of the combined effort has resulted in the exile or transfer to other diplomatic posts of three high ranking officials.

One I believe was sent to Paraguay, and he is serving in the mission there. Another is now in Taiwan. It has been reported that the third, who was the former Director of Intelligence of the National Police in El Salvador, Lieutenant Colonel Aristas Alfonso Marquez, is now going to school in San Jose, Calif.

If this is so, would this make a mockery of the Kissinger Commission's call for the imposition of sanctions, including denial of visas, deportation and investigation of financial dealings against foreign nationals in the United States who are connected with death squad activities in El Salvador or elsewhere?

Secretary SHULTZ. I agree with the Kissinger Commission recommendations. Some of them are hard to implement under current legal conditions, as I understand. I think that the key question to ask goes beyond what has happened to these three individuals, or others for that matter, but whether or not we see a result in El Salvador. It is the diminution, and we, of course, want the end of death squad activities and murders in El Salvador. That is the name of the game. As I have said earlier, I think there has been some result in that regard.

Senator INOUYE. In Colonel Marquez in California?

Secretary SHULTZ. I don't know the answer to that question, Senator. I am sure I should know.

Senator INOUYE. Does anyone here know, because we have had persistent reports that he is in California. If he is in California, I think the committee would like to know.

Secretary SHULTZ. I should have followed up on that, but I just haven't done it, and I apologize.

[The information follows:]

WHEREABOUTS OF COLONEL MARQUEZ

We have been informed by the Immigration and Naturalization Service that Marquez entered the United States at Los Angeles on January 26, 1984. Marquez gave a Los Angeles address as his destination and he was admitted for a 6-month visit (valid until July 25, 1984).

There is, however, no way to ascertain exactly when Marquez was issued that visa. We do know that it was issued by our Embassy in San Salvador and we presume that it was issued some time ago, before his name was linked with allegations concerning death squad activities.

VISA DENIED TO D'AUBUISSON

Senator INOUYE. If he is in California, I am certain the committee would like to know under what circumstances he was issued a visa to come to the United States. I ask this because many months ago, we denied a visa to Roberto D'Aubuisson, reportedly for his activities which linked himself to death squad plots. Was that the reason for denying D'Aubuisson a visa?

Secretary SHULTZ. The D'Aubuisson case was a complex one, and I prefer not to comment on it in this hearing. I had the same go-round with Senator Helms recently, and I have subsequently discussed it with him.

Senator SPECTER. We all think alike up here in the Senate.

Secretary SHULTZ. If you have seen one, you have seen them all. [Laughter.]

TRANSFER OF STINGERS TO JORDAN

Senator KASTEN. Senator D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman.

Mr. Chairman, I will join my distinguished colleague from Hawaii in endorsing your remarks regarding the Stingers and the transfer of such weapon systems, not only to the Jordanians, but to any nation which does not fall within the provisions of strategic and military agreements with our Government. I am concerned that we have not learned from the lessons of previous weapon system transfers.

Iran, where we transferred vast amounts of military supplies and equipment, was once perceived to be a stable government. No one can effectively argue that the Jordanians are more stable than the Iranian Government under the Shah. I don't believe the Stingers offer a guarantee of continued stability in Jordan. I am very concerned, Mr. Secretary, that we could rue the day of transferring the Stinger missile system to Jordan. So I would be opposed to an agreement that would provide for the Stinger missile to be transferred to the Jordanians.

EUROPEAN MODERNIZATION

In another area, Mr. Secretary, I note that on pages 18 and 19 of your prepared testimony, you discuss our NATO allies, specifically Turkey, Greece, Spain, Portugal, and the need for their providing a shield for NATO on the southern flank of Europe. A military modernization program is being undertaken, with $1.8 billion in U.S. assistance provided to support this effort.

You note that we have signed a new military base agreement with Greece, providing for continued U.S. use of these important facilities. I congratulate you for being able to bring this about. I am delighted with our Government's ability to maintain our strategically important relationship with Greece.

STEPS TO RESOLVE GREEK-TURKISH DISPUTE

I am, Mr. Secretary, very much concerned with what is taking place in the nation of Cyprus. Approximately 20,000 Turkish troops continue to occupy the northern part of Cyprus. There is hope for a moderation of the Turkish position, given some preliminary indications of possible garrison reductions.

Here we have two very important strategic allies, Greece and Turkey, not to underestimate the importance of the Island of Cyprus. Unfortunately, I do not believe the United States is using its influence today, as it should, to bring these allies together to resolve the Cyprus dispute. I don't think that we should be financing 20,000-plus Turkish troops in their role as armed occupants on the island of Cyprus. It just does not make sense.

We are, in fact, paying for those troops, through general military assistance supposedly because Turkey holds a key NATO defense position on the southern European flank.

I have grave concerns about our continuing to provide substantial military assistance to Turkey and Greece, and not having the ability to bring two allies together to resolve the conflict over the future of Cyprus.

I am concerned that through massive assistance to Turkey we are going to lose the support of the Greeks. I am concerned that we are going to lose the support of Cypriots. Both nations have been very helpful to the United States in our efforts in Lebanon. Both Greece and Cyprus made facilities available to us. I think that our nation has an obligation to actively encourage a resolution of the difficult situation on Cyprus before we face another military crisis on the island.

What are we going to do? What initiatives can we undertake to address this problem before it expands to crisis proportions?

CATEGORICAL DENIAL OF ARMS SALES NOT PRACTICABLE

Secretary SHULTZ. First of all, Senator, going back to the early part of your statement, I don't think we should refuse to sell arms of certain categories to any country that doesn't have a formal defense agreement with us, that would eliminate some countries that I think probably you and I would not want to eliminate.

Senator D'AMATO. I am talking about the Stinger missile system.

Secretary SHULTZ. If you would just think through some of the countries that don't have a formal defense agreement with us, perhaps you wouldn't want to make your statement so categorical.

Senator D'AMATO. Perhaps you are right.

QUESTION OF CYPRUS BEFORE THE UNITED NATIONS

Secretary SHULTZ. Second, insofar as the Cyprus question is concerned, of course, it is an important and difficult question. There have been strains, as everybody knows, between Greece and Turkey for a long time, and on Cyprus for a long time. We opposed, and did so vigorously and immediately with a lot of followup, the unilateral declaration on Cyprus of the independence of the Turkish part of it.

There are active discussions going on. We believe that these should be led by the United Nations. The Secretary General of the United Nations has a personal background in this area, and he is undertaking mediation efforts. There has been, I think, some progress.

PRIORITY PLACED ON QUESTION OF CYPRUS

From our standpoint, we have put a lot of priority on this. In addition to the work being done in our European Bureau on it, we have supplemented that with a great personal effort by Ed Derwinski, formerly a Member of the House of Representatives, and now a Counsellor in the Department. He has a kind of free-floating type of assignment. He is well-known in the region, and I think he has been very effective.

TROOP DRAWDOWN

There have been some moves. You referred to a slight troop drawdown. There have been some moves involving Varosha that have some promise, not enough, but at least there is some motion there. These are the kinds of things that people are trying to work with.

MODERNIZATION OF TURKISH FORCES

In the meantime, the position of Turkey is obvious just by a glance at the map. The efforts that we have been making have to do with modernization of their armed force which is badly in need of that modernization; an encouragement to the kind of economic program that the Government of Turkey seems to be wanting to undertake and is undertaking.

I might say also that I think that the internal developments in Turkey are encouraging in the sense of moving that country into the direction of democratic government.

NEGOTIATIONS BETWEEN GREECE AND TURKEY DESIRED

Senator D'AMATO. I would like to close with an observation. If we leave resolution of the Cyprus question to the United Nations, nothing is going to be done of a concrete nature.

I am not advocating that we should support one side or the other. I do, however, believe we should become actively involved. I am aware of the efforts of Mr. Derwinski, but that is not the clear signal to Turkey and Greece that we must convey to these nations about the need for meaningful negotiations on Cyprus.

I think we are playing a dangerously limited role unless we move in this area. I am not suggesting that we threaten reprisals or termination of military assistance, but I do suggest that we indicate to Turkey and Greece at the highest levels that we can readily identify the mutual benefits to both of settling the peaceful future of Cyprus.

I strongly recommend this course of action. I don't believe leaving resolution of the problem in the hands of the United Nations is going to address the issues involved in the relationship of Greece, Turkey, and Cyprus.

Thank you, Mr. Chairman.

Senator KASTEN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

HALT OF ARMS FLOW FROM NICARAGUA TO HONDURAS

Mr. Secretary, in response to an earlier question, you said that you, in effect, do not need the Congress, or the President, or anybody else to establish your own personal commitment to human rights. I, for one, would never suggest that you would have to defend your own personal commitment to human rights.

You wouldn't be qualified to be Secretary of State unless you had such a commitment. I feel that you are not only eminently qualified to be Secretary of State in this administration, you would be eminently qualified to be Secretary of State in any administration, Republican or Democrat.

So neither I, nor I suspect anybody in this committee questions your personal commitment to human rights. You couldn't serve as Secretary of State if you didn't have that. I just want you to know that this is the way we all feel here.

Mr. Secretary, the concerns on the policies and the effects they may have, of course, remain a matter of concern with all of us. Let me ask you one more technical question, and perhaps it could be answered more objectively than some of the subjective matters we have gone into today.

We have had a significant military buildup in Honduras. We have had the activity of the Contras, at least according to what has been acknowledged to be accurately reported in the public press, and we have our own U.S. troop deployment in Honduras. How successful have we been in intercepting weapons going from Nicaragua to El Salvador?

Secretary SHULTZ. There is still a flow, so we haven't been completely successful. It has been slowed, and I think there has been a very considerable amount of success, but we haven't been completely successful.

Senator LEAHY. Have we actually intercepted weapons, though, that you are aware of?

Secretary SHULTZ. Yes.

Senator LEAHY. Going from Nicaragua to El Salvador?

Secretary SHULTZ. Yes, sir.

Senator LEAHY. Do you know in the past year what quantity of weapons those were?

Secretary SHULTZ. I would have to give you an answer for the record. I don't know the classification that it would carry.

[The information follows:]

INTERDICTION OF WEAPONS

There has been only one instance of successful interdiction during the past year. A guerrilla patrol carrying documents which linked it to the Farabundo Marti National Liberation Front (FMNL) and to the Nicaraguan Government was intercepted by Honduran troops as it passed through Honduras en route to El Salvador from Nicaragua. A variety of small arms and ammunition was captured.

RECEIPT OF WEAPONS BY SALVADORAN GUERRILLAS

Senator LEAHY. Do you know what percentage of the weapons that the guerrillas have come from Nicaragua, and what percentage comes from the Salvadoran Army?

Secretary SHULTZ. Obviously, some come from captured weapons that they get a hold of in one way or another, but I believe the percentage is relatively small. The flow at this point to the guerrillas is not so much weapons as it is supplies.

Senator LEAHY. In the past 2 years, have the guerrillas in El Salvador gotten more weapons from outside the country, or weapons that they have taken from the Salvadoran Army?

Secretary SHULTZ. From outside the country.

ECONOMIC AID TO EL SALVADOR

Senator LEAHY. Mr. Secretary, a couple of years ago, when Secretary Haig was testifying before this committee, I asked about a disturbing report in the Wall Street Journal that said that our economic aid program in El Salvador, "Many have believed that the money is at best only a stop gap. At worst, it could end up in Miami banks as did much of the estimated $1 billion that has slipped out of the country since 1979."

I explored that issue with Secretary Haig, and later with Otto Reich. They assured me that there was no problem, everything was under control. Mr. Reich, for example, told me on March 17, 1982, that capital flight wasn't much of a problem, and I quote him, "The AID mission in El Salvador is very careful to monitor all of the expenditures of U.S. money, and they are assured that our money can be accounted for."

Now, apparently, everybody wasn't all that sure, notwithstanding his testimony to this committee, because they asked their Inspector General to do a study of the problem. His report found that price checking units of the Central Bank were grossly understaffed. As far as I can tell, AID did little at the time. Then in 1983, another Inspector General study found the same problem, then AID commissioned Arthur Young.

I realize that this wasn't under your watch, but 2 years ago was this committee misled?

Secretary SHULTZ. Senator, there are two different issues here. One is the question of what happens to the funds that we put there and our effort to see that they are used in El Salvador for the purposes conceived. I think Mr. McPherson has covered that in terms of our effort at these price checking units, and tracing through the decline in the capital outflows that are directly involved.

SECURITY AND HIGH RATE OF RETURN IN U.S. BANKS

I would now like to speak a little more generally, however. It is demonstrably the case that private money, wherever it is located in the world, seeks first security and then rate of return. It is a problem right now that the United States is a safe haven for money. It is not a problem, in a sense, it is a compliment to us. It is also a place that money can get a rate of return. So it flows, and it flows from all over the world—from the Middle East, from Asia, from South America.

There is a big inflow here, and that is part of the overall problem. These financial flows mean that the dollar is a lot stronger than it would be if its true value were being judged on strictly trade matters, and that in turn has produced the high dollar, and the trade problems that we have.

What the figures were, in fact, back in those days, and the causes, I am not really able to comment on, but I do know that there are huge financial flows going on in the world that are by and large coming to the United States, and the reason is that the United States is so much more secure as a place to pour private funds, and the rates of return are higher.

Senator LEAHY. I am sure you understand, Mr. Secretary, that my question is not directed to those private investors who may be putting their own money into the U.S. banks for whatever reason, strong dollar, safe country, or whatever. But rather, when our tax dollars go down and get funneled back in as the hidden place for that money, that then becomes a matter of great concern.

I would like to follow up with some questions for the record, Mr. Chairman.

ARMS FLOW

I would ask, Mr. Secretary, if you may wish to review carefully the answer on the flow of arms. I realize that in an open session—I have a number of followup questions that I would like to ask, and I would like you to review your answer, add to it any classified material necessary, and then I would like to do some followup questions. I suspect there are a couple of them that will have to be of a classified nature.

Secretary SHULTZ. Thank you, Senator. Are you giving me an opportunity to correct the record, if I wish to, is that it?

Senator LEAHY. I think, if you look carefully at my question, and if you look carefully at your answer, you may want to.

Secretary SHULTZ. Thank you.

Senator LEAHY. Thank you.

[The information follows:]

INTERDICTION OF ARMS SUPPLIES

Interdiction of supplies remains the responsibility of and a concern of the Salvadoran armed forces, but its limited resources—that is, lack of radar and a well-equipped navy—preclude a full scale interdiction effort. Given the equipment available to it, the primary mission of the armed forces is to patrol aggressively and to defend towns and villages from attack.

The guerrillas have multifaceted modes of shipment, and even successful interdiction operations such as the attack on La Pelota fishing village, an important arms transit point, only constrained but did not halt the flow of arms. We know from clandestine reporting, interrogations of captured guerrillas, and by the quantities of materiel being expended by the guerrillas that external resupply by sea, land, and air continues.

QUESTION OF CONGRESSIONAL AUTHORITY IN DECLARING WAR

Senator KASTEN. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, so that the administration will have some idea of sentiment on this Stinger issue, I agree with Senator Kasten, Senator Inouye, and Senator D'Amato.

Secretary SHULTZ. Yes, sir, I have been getting the message.

Senator SPECTER. I would like to pursue the subject of congressional authority to declare war, and whether there is any real role left, and whether it is practical. I agree with your statement about the War Powers Act not being acceptable, tying the hands of the executive branch, and that is part of the reason that we are searching for something.

As I have been across my State with the open house and town meetings, I have had many people say to me, "Why are we at war in Lebanon without a congressional declaration?" I believe that Lebanon was a war.

Senator Percy and I had an extended colloquy on this subject of the war powers resolution. We considered that on September 27 as an amendment to the bill. We were seeking at that time some parameter, some definite means that made some sense. I asked him whether he thought Vietnam was a war, and he said, yes. I asked him if he thought Korea was a war, and he said, yes. I asked him if he thought Lebanon was a war, and he said, yes. At that time there had been five fatalities, and about two dozen casualties, two dozen wounded at that time.

It is a difficult matter, and it may be that, given the exigencies and emergencies, the Congress doesn't have any role any more, and wars come about without a congressional declaration. I think that is very bad, not only because it is a constitutional violation, but because I do not think that we can fight successfully without public support, and the Congress is the best way to feel that public support because we have the opportunity to really see and discuss these matters with the constituency in the broadest space, and that really is the strength of our Government.

Leaving out Lebanon and Grenada, Mr. Secretary, is it your view that Korea was a war?

Secretary SHULTZ. Do you mean back in the 1950's?

Senator SPECTER. The Korean conflict back in 1950, et cetera, June 25, 1950, and on?

Secretary SHULTZ. Yes.

Senator SPECTER. And Vietnam as well?

Secretary SHULTZ. Yes.

U.S. INVOLVEMENT IN STRAITS OF HORMUZ

Senator SPECTER. Where do we go? What does the Congress do? I am considering a sense of the Senate resolution that we ought to take up the Straits of Hormuz matter, and I am not saying how we ought to decide it. I am not sure that we ought to consider it at all, because it may be that what we would do would be counterproductive. In trying to write a resolution, it is very difficult to write it down, with some parameter where military force should be used.

For the past several weeks the Straits of Hormuz have been upon us, and we know that it is a problem. The Congress is sitting back, and it is really deferring to the executive branch, and perhaps we should. My own sense is that we should not, we ought to take up the question, and perhaps we ought to decide not to decide it.

Do you see a complication if the Congress—I know that we can consider it. Whatever we decide to consider, we may. Do you see a complication for the President if the Congress were to try to set some parameters on where force should be used, and to what extent?

Secretary SHULTZ. It is a very deep subject, and I think to a degree a changing subject. I am sure that the answer to your question is, yes, it is a complication for the President. It is, of course, always important to know the sentiments of the Congress. We have to basically work together on these vital issues of war and peace. It is a commitment to do that.

EFFECT OF WAR POWERS ON LEBANON

I think that the War Powers Act itself, the way it operates, perhaps against the background of Lebanon as a case study, it just shows you what tends to happen. I think that ought to be reviewed by the Congress. I don't think that it was a good performance. While perhaps our view of why is different, I got the impression that Senator Leahy didn't think so either.

Senator LEAHY. I am sorry, Mr. Secretary, I was being distracted and I didn't hear that.

Secretary SHULTZ. I was commenting on the War Powers Act, and its operation in Lebanon. I said that I didn't think that it was a very good performance, and from your comment, even though perhaps our reasons for feeling that might not be the same, you didn't think so either.

INTERACTION OF EXECUTIVE AND LEGISLATIVE BRANCH IN U.S. DEFENSE EFFORTS

I would expect that there are probably a lot of questions around in the Congress about whether or not that particular piece of legislation is the most desirable way to structure the interaction of the executive and legislative branches as we struggle with issues involving force around the world. I think that that is one question to be examined.

The Straits as such is an example of a type of situation. However, I feel that a great deal of the reality that we as Americans are going to face over the next decade is going to be situations where it is clear that there are important, perhaps vital American interests at stake, where the situation is inherently somewhat ambiguous, and the nature of the ambiguity can move in all sorts of directions, and where clearly we could advance American interests if we were able to employ a modicum of force, combined and articulated with diplomatic efforts, and be able to sustain it so that it is credible over a period of time.

I think that it is an open question whether or not we are able to do that. If we aren't able to do that, then we are going to check out on an awful lot of American interests. It is a hard thing to manage, because there are so many different views, and the ability to sustain an effort is affected, and people's perception of our ability to sustain an effort is affected by what people all over the world read in our newspapers. They all read the papers.

I think that it was absolutely astonishing to the Soviet Union and Syria that we didn't strike when we moved the Marines offshore. I think there is no question about the Soviets vetoing a U.N. resolution to put the U.N. forces in more dispersal if they had felt they needed to trade that off. They got it anyway.

I am not questioning the decision at all, I agreed with it, because by the time we got to where we were, there was no support for having the Marines stay there. So we had to move them, and rearrange the structure of what we were trying to do. But our own debate here just totally took the rug out from under our diplomatic effort.

I think that there is a big, important, deep issue for us to explore that doesn't lend itself to quick answer, or an off-the-top of the head answer. I have been thinking about it. I have people in the Department thinking about it. I am sure that any answer that comes out will not be clear cut, but still we have to examine this kind of an issue because it involves our capability to defend our interests, and the circumstances under which we will commit various levels of force to a situation.

U.S.-ISRAELI AGREEMENTS CONCERNING JOINT MILITARY EXERCISES

Senator KASTEN. The Senator from Arizona.

Senator DECONCINI. Mr. Secretary, I know that time is running out.

Mr. Secretary, my own feeling is that we have had a very inconsistent foreign policy in the Middle East prior to your taking the helm, and prior to this administration coming into power, inconsistency toward not only Israel, but Egypt and the peace process as set forth in Camp David.

First, what are we doing to implement the agreements that I understand were reached between Prime Minister Shamir and the President when Prime Minister Shamir last visited here, such as joint military exercises with the Israelis, the stationing of military equipment in Israel, trade preferential treatment, et cetera. That is the No. 1 question. If you care to answer that, then I have one last question.

Secretary SHULTZ. We are working hard to implement all of the agreements that were reached. I think that the process of doing that is going along quite well. There were discussions of our military assistance levels, and the support level in the President's budget is an outcome of that discussion.

Senator DECONCINI. Will we see joint military exercises this year?

Secretary SHULTZ. Could I answer the question, because I would like to take it piece by piece.

Senator DECONCINI. Yes, sir.

ECONOMIC AID TO ISRAEL

Secretary SHULTZ. On the question of economic assistance, we wanted to get an idea of what the Israelis' program was going to be. They have some very difficult economic problems to face, and then have an economic aid package that will be supportive and helpful to them in facing their problems.

We didn't really come to a conclusion with them on that because they were not ready to tell us what they were planning to do, or how they were planning to get at that. We have since had quite a few discussions with them, and I think there is a good dialogue about this subject.

ESTABLISHMENT OF U.S.-ISRAELI POLITICAL-MILITARY GROUP

On the question of the military relationship, a joint political-military group was established. It has met once, and I think that all parties to it felt very good about the meeting. We did, and the Israelis have told us that they did. When we agreed to set this up, both sides felt that we should follow a practice of announcing whenever there was going to be a meeting, saying who was at the meeting, but not issuing any statement about the content of the meeting.

However, in saying that the group would be established, it was also said that it would take up subjects such as prepositioning, such as exercises, and things of that kind. So those are explicitly labeled within the mandate, or whatever you would call it, of the group.

So it has met, and it will be meeting again probably in the middle of the year, not in Washington, we will meet in Israel. When something concrete emerges from the discussion, or if there is an exercise, obviously that will be announced as such. But we don't plan, and I don't think the Israelis wish either, to conduct those meetings in the full flower of light.

JORDANIAN AID

Senator DeConcini. Thank you, Mr. Secretary.

I want to inform you, too, that this Senator joins the chairman and Mr. Inouye regarding the arms sale to Jordan. The 1982 Middle East peace initiative of the President and the administration is in this Senator's judgment quite a failure, not all the fault of the administration. Why don't we condition all military assistance to Jordan, not just the Stinger missile sale, on them becoming part of the peace process, to participate in a way similar to Egypt's participation in, in the discussion of the relationship between Israel and Egypt. It seems to work with Egypt. Is the administration considering a new initiative that might encompass that principle?

Secretary Shultz. First of all, Jordan is a country that is important to us in its own right, and we have relationships with friendly countries in the Middle East that we feel stand on their feet independently of other considerations.

I think if you look at the levels of aid going to Jordan, and compared them with Egypt, or think about it in terms of what it might be, it is clear, and I think that it is clear to the Jordanians, that if they are involved in the peace process with Israel, the attitude toward support will be quite different. They understand that, but I don't think that everything under the sun should be conditioned on that, there are other things going on. I was asked by Senator Specter about the Straits of Hormuz, and the Iran-Iraq war, and that is a problem, too. So there are a variety of problems here.

Senator DeConcini. That doesn't address my question. It seems to me that if there is some success with Egypt, and you acknowledge that there is, why not try the same approach to Jordan? Jordan has the Saudis spending hundreds of millions of dollars assisting them economically. They have pretty well cut off the Egyptians. We have stepped in and brought about a peaceful relationship between two allies.

Why not try that since our Mideast 1982 initiative is a failure, why not try something new and a condition?

UNITED STATES PLAYS CONSTRUCTIVE MIDEAST ROLE

Secretary Shultz. In the first place, I don't agree with you that the President's initiative is a failure.

Senator DECONCINI. Have we had success there lately?

Secretary SHULTZ. It is not a success, but it has provided an essential rallying point. People throughout the region talk about it, and I think that it has played a very constructive role in the discussions.

It has not yet been possible to bring another Arab Government with Palestinian representation to the bargaining table with Israel. We continue to work on that, and we want to see that come about.

You were kind enough to note that not everything that happens in the Middle East is the responsibility or under the control of the United States. That is true. I agree with that statement. But we do try to influence things in a constructive direction.

On the whole, I think that the fact is that there has been across administrations a consistent United States policy in trying to promote peace and stability in the region, and trying to promote first some relationships, and then reasonable relationships between Israel and Israel's neighbors. That has been a consistent U.S. effort. The tactics of it have obviously had to vary, and properly so, as circumstances rearrange themselves.

Senator DECONCINI. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

U.N. MEMBERS' SUPPORT OF U.S. FOREIGN POLICY

Senator KASTEN. Mr. Secretary, I just have one concluding question. Tomorrow, Ambassador Kirkpatrick will testify before the committee. During that time, I intend to discuss with her, and I know other members will discuss with her, a report which is now required by an amendment which I offered and this committee endorsed, which details the degree of support for U.S. foreign policy by members of the United Nations, together with a scorecard showing how those countries voted on issues of importance to the United States in the last General Assembly.

I do not know whether you have had a chance to evaluate that report with an eye toward reevaluating the amounts of bilateral assistance that you are providing to countries which show an unacceptable degree of support for the United States as measured by this report. Do you agree that this is a useful tool, overall, in looking at our foreign aid programs?

Secretary SHULTZ. I think the words, "useful tool," are well chosen. By that I think you mean that it is not the only tool or the only thing that we should use to judge these things, but it is important to look at that record, and it is also quite worthwhile that other countries know that we are looking.

Senator KASTEN. Mr. Secretary, we thank you for your testimony this morning.

SUBMITTED QUESTIONS

Senator LEAHY. Mr. Chairman, I wonder if I could include a couple of questions for the record, beyond what I discussed. One is, having heard such good reports from Senator Danforth after his trip to Africa about Mozambique, I would like to submit some questions regarding that.

Senator KASTEN. The subcommittee will have additional questions, which will be submitted to you in writing. Once more, Mr. Secretary, I thank you very much for your testimony.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

GREEK GOVERNMENT SUPPORT OF UNITED STATES

Senator Kasten: A lot of Americans, including a lot of Greek Americans are wondering aloud why we are providing that country with such substantial assistance in the face of the current government's attitude towards the United States, United States foreign policy, and for that matter, NATO policy.

It might be helpful to us in order to alleviate this concern if you could detail for us instances where the Greek Government has supported the United States. Can you do that?

Secretary Shultz: It is true that the US has had differences with Greece on a number of major foreign policy issues, such as INF deployment in Europe, arms control, the Korean Airlines shootdown, Poland, Central America, and the Middle East. These must be considered, however, in the larger context of relations between two democratic allies whose perspectives can differ but also coincide. Greece has been an important member of NATO since 1952, and a full member of the European Community since 1981, and plays an important role in these key Western institutions.

With regard to specific areas of agreement, Greece recently concluded a new Defense and Economic Cooperation Agreement (DECA) with the United States. In reaching this Agreement, we maintain our existing facilities in Greece on terms acceptable to both governments, including a U.S. commitment to provide defense support to Greece. During its term as Presidency country of the European Community (July-December 1983), Greece conducted the traditional liaison on political issues with the United States in a professional and thorough manner. Greece has since the fall of 1982 voted in favor of Israel's participation in the United Nations and its specialized organizations. Greece also participated in the evacuation of the PLO from Beirut in 1982 and from Tripoli in 1983.

ASSISTANCE TO MOZAMBIQUE

Senator Kasten: I continue to receive a good deal of pressure from the Administration, encouraging a shift in U.S. policy towards Mozambique. As you know, although we have provided a great deal of humanitarian assistance, Congress has been very reluctant to provide a regular foreign assistance program to that country because of its Marxist nature and the fact that it has basically been a client state of the Soviet Union. As evidence of that, the recent report, as required by law, by the State Department shows the degree of support by Mozambique for the United States' foreign policy, which is, to say the least, dismal. In the last General Assembly, it supported the United States 8.7% of the time, and did not support us once in the ten key votes listed as most important to the United States by the State Department report.

I have repeatedly requested any information which might indicate a reason for shifting our policy, but nothing of any substance has been forwarded. Some vague references have been made to Mozambique's pulling back its support to rebel groups in southern Africa, but according to the story in Sunday's Washington Post, this is not true.

Therefore, aside from the provision of humanitarian assistance, I can see no reason to support foreign aid for that country. Why does the State Department think we should do so?

Secretary Shultz: After its independence in 1975 Mozambique was linked very closely to the Soviet Union; the charge that it was a Soviet "client" is not wholly unjustified. The Reagan Administration, however, refused to accept that status quo. Because Mozambique's strategic location along southern Africa's Indian Ocean coast makes it key to the trade prospects of its land-locked neighbors, and because of the key diplomatic role it can play in the regional settlement process in southern Africa, it was too important to write off as an incontrovertible Soviet pawn.

The Administration has moved to counter the Soviet position in Mozambique by following a policy of improving relations with that country through a series of incremental, reciprocal steps in several areas, including assistance, as our contribution to a broader western effort. The key words are "incremental" and "reciprocal." We are not out to bribe Mozambique into a constructive relationship with the West. We are following a careful, deliberate policy of showing the Mozambicans that they can benefit from such a relationship, but only to the degree they are willing to take actions consistent with genuine non-alignment and not act as a Soviet pawn.

Regarding assistance, we are proud of the great deal of humanitarian assistance we have given to drought victims in Mozambique -- over 40,000 metric tons of food so far in FY-1984. As part of our general policy of incrementally improving relations, we are now beginning to integrate Mozambique into the ongoing regional programs funded by our Southern African Regional ESF account. This move not only recognizes past Mozambican steps on issues important to us and encourages additional favorable steps, it also makes good economic sense, given the importance of Mozambique to the economy of the region.

Have our efforts been worth it? As a yardstick to measure the effectiveness of our overall policy, we can compare where our relations with Mozambique in a number of areas stood in mid-1982 when we began our policy initiative in earnest, compared with where they stand today:

-- in mid-1982 the Mozambicans listened exclusively to Moscow and barely talked to Washington; today we have exchanged Ambassadors and are working closely on promotion of a regional peace settlement.

--in mid-1982 there were incessant attacks on the U.S. in the Mozambican media; today they report U.S. views abundantly and objectively, and the situation can improve even further now that a USIA Public Affairs Officer has joined the staff of our embassy in Maputo.

-- in mid-1982 the Mozambican economy was oriented toward the Soviet model; today the private sector is being encouraged, foreign investors are being given realistic guarantees, negotiations for an OPIC agreement are at an advanced stage; and Mozambique is considering applying for IMF and IBRD membership.

There are other examples. Most important is in the area you mentioned, support to rebel groups. On March 16, the Mozambican president met with the South African Prime Minister on the border between the two countries to sign a non-aggression pact. The U.S. played an active role in encouraging the negotiations leading to the pact, and the signing will be a major victory for western interests and a defeat for the policies of destabilizaton which serve Soviet interests in southern Africa. It appears that the South African Government does in fact believe that Mozambique is pulling back support to rebel groups.

To be sure there are areas in which we feel further improvement is necesssry, and one of these is Mozambique's voting record in international fora, which has been antithetical to our positions. There are signs of improvement. In early March, after the U.S. made strong demarches on the issue, the Mozambican delegate to the UN Human Rights Commission in Geneva pointedly did not vote for Soviet Bloc-sponsored anti-American resolutions on Central America and the Caribbean. This is only a small step and we have a long way to go. But it would be counter-productive to allow disagreements in one area of the relationship to hinder the overall advancement of U.S. interests.

If Mozambique takes additional contructive steps in areas important to us, we will continue to expand our relationship with that country in all areas. This includes the assistance field, where we will look especially for ways to work through and with NATO allies like Portugal which have a strong interest in Mozambique.

Our policy is working and we intend to continue the process. The costs have been relatively small, but the strategic gains for the United States have been great. We have the opportunity to continue protecting those strategic advances which have been made and to seek new ones, and we do not intend to allow that opportunity to slip.

POTENTIAL SALVADORAN REFUGEES

Senator Kasten: I have heard the reports that the collapse of El Salvador would generate 2.5 million refugees to the United States, and that the cost of providing basic services to these refugees would be about $10 billion, 32 times the amount that the President has requested for military aid to El Salvador.

What do you think of this claim, and is it valid?

Secretary Shultz: First, I would like to say that I do not think that El Salvador is going to collapse. Our current policies militate against such a possibility, and they are working. If such a remote event did occur, the prospect of 2.5 million refugees, half of the population of El Salvador, fleeing to the United States is likely an exaggerated number, I think. Nevertheless, the collapse of a Central American government would be a matter of potential serious concern. A large number of Salvadorans would certainly seek to leave their country if the guerrillas won or were about to win. And clearly, a large number would seek to enter the United States. But, I would not want to guess as to how large that number would be in that hypothetical situation.

THE MILITARY SITUATION IN EL SALVADOR

Senator Kasten: The military situation in El Salvador has taken a couple of turns for the worse over the last several months -- what is the current situation?

Secretary Shultz: Despite the reverses suffered in the guerrilla "spectaculars" at the end of the year with the destruction of the Cuscatlan bridge and the capture of the El Paraiso garrison, the Salvadoran military is now clearly holding its own and has slowly improved its capabilities.

-- The restructuring of the military command late last year has put more competent, aggressive commanders in key positions and has streamlined command and control.

-- Combined army-air force operations are being better coordinated and stepped up, with very good results.

-- The Salvadoran Armed Forces (ESAF) have been on the offensive since mid-January both in extending the National Plan into Usulutan Department and elsewhere in the country. The guerrillas have not launched any major attacks since January -- although there have been continued terrorist attacks against civilian targets for propaganda purposes (supply train ambushed, Red Cross volunteers killed, assassination of two deputies, bombing of gasoline stations in San Salvador).

ESAF successes since the beginnning of the year include:
-- defense of Las Guaras Bridge -- March 2
-- attack at San Gerardo -- Feb. 27
-- sweep of Chalatenango -- Feb. 10 - 17
-- attack on guerrilla camp at Volcancillo -- Feb. 10
-- defense of Dolores -- Feb. 15
-- defense of Lempa River railroad bridge -- Jan. 16
-- defense of Chalatenango City -- Jan. 15

The ESAF also successfully protected the harvest with only one coffee mill burned.

In actions such as that at San Gerardo in mid-February, the ESAF has been inventive and aggressive. Although pilot error resulted in the loss of two helicopters, the ESAF killed a number of guerrilla troops and captured both guerrillas and weapons. Guerrilla defections are increasing and with them the ESAF is acquiring excellent intelligence about guerrilla plans.

Increased guerrilla activity can be expected during the two rounds of the election and up till the June 1 inauguration of the new president. Under these circumstances, ESAF shortages in spare parts, ammunition, and weapons -- anticipated for late April-early May -- will become increasingly troublesome unless we act. There is urgent need to act on these requirements. However, with the increased resources we have requested in the supplemental, the ESAF will be able to protect fully the electoral process and the new government.

EGYPT: BALANCE OF PAYMENTS SUPPORT

Senator Kasten: Recent reports on the state of Egypt's economy confirm this subcommittee's warnings a couple of years ago when we suggested that Egypt's debt burden was one of the strongest arguments for providing that country with balance of payments support.

As you know, A.I.D. continues to provide project assistance which continues to be backlogged -- now at some $2.5 billion.

I believe that President Mubarak, in his recent visit, understood that President Reagan had endorsed more balance of payments support for that country.

What is your position on this matter, and is it also your understanding that the President has endorsed balance of payments support for Egypt?

Secretary Shultz: During President Mubarak's recent visit, we reiterated our desire to support the Egyptian government's efforts to deal with Egypt's economic problems and its debt situation. In that regard, we stressed that the President's proposal to put military assistance on an all-grant basis is designed to help reduce the economic burden of our assistance. This proposal promises both immediate and longer-term economic benefits to Egypt. We also noted that approximately half of our current economic assistance (e.g. the Commodity Import and PL-480 programs) provides balance of payments support. Regarding additional actions, we reaffirmed our support for using the $103 million which has been deobligated from past years' programs as a cash transfer to support additional economic reforms which would, inter alia, improve Egypt's ability to meet its debt commitments. We also expressed a willingness to consider cash transfer as a part of future economic assistance programs if it would support significant economic adjustments, such as might be made in conjunction with an IMF-sponsored reform program.

CHINA AND THE ASIAN DEVELOPMENT BANK

Senator Kasten: During our hearings last year we discussed the possibility of the People's Republic of China becoming a member of the Asian Development Bank, which you felt would be constructive if they met the conditions for membership, and you also stated that "On the other hand, if Taiwan in the process is expelled from the Bank, then I think that will cause great difficulties for the Bank as far as support from the United States is concerned, and we have expressed that viewpoint in various Asian circles."

Has the PRC made formal application to join the Bank?

Secretary Shultz: China expressed its intention to apply for membership in the Asian Development Bank on February 10, 1983. It has not yet submitted a formal application.

Senator Kasten: What is your current thinking should the PRC insist that Taiwan be expelled from the Bank?

Secretary Shultz: It is our understanding that China is not insisting that Taiwan be expelled. Taiwan has played a constructive role in the Bank since its founding and has an important economic role in the region. The expulsion of Taiwan would have serious implications for continued U.S. participation and funding for the ADB, and the Administration strongly supports efforts to ensure continued participation by Taiwan. We have made our views clearly known to all parties concerned, and we hope that a satisfactory solution can emerge.

SOVIET ARMS CONTROL NON-COMPLIANCE

Senator Kasten: One of the purposes of foreign assistance is to enhance our own security. There are, of course, many dimensions to our security, one of which concerns our policy regarding nuclear weapons. President Reagan has recently reported to Congress on Soviet violations of arms control agreements, and I, along with Senator McClure, have asked for hearings on the defense appropriations subcommittee on the military implications of these violations. Since I have you here, and since arms control is within the purview of the State Department, let me ask you about these violations.

What do they tell us about the Soviet approach to negotiations and what do they suggest about the future of arms control?

Secretary Shultz: It is difficult to speculate about the motivations behind the Soviet approach to arms control negotiations. In the past, the Soviets have sought to negotiate imprecise language in arms control agreements so as to allow desired military programs to proceed, and to take advantage of existing loopholes and ambiguities when necessary. Moreover, the USSR has never accepted an obligation to abide by U.S. unilateral statements regarding interpretations of arms control provisions. Recent Soviet actions suggest a willingness to go beyond exploiting ambiguities and imprecise treaty language to the point of outright violations when such actions are judged necessary or the risks thought to be tolerable. The fundamental reasons behind this behavior remain unclear.

Regardless of possible Soviet motivation, their noncompliance is a serious matter, which, inter alia, under- mines the confidence essential to an effective arms control process in the future. Given the importance of enhancing the prospects for peace and reducing the risks of war, the Administration's policy is to continue to seek to negotiate new arms control agreements. Better verification and compliance provisions and better treaty drafting will help in the process. But it is fundamentally important that the Soviets take a more constructive attitude toward compliance. For this reason we will continue to press our compliance concerns with the USSR and insist upon explanations, clarifications and corrective actions.

RUMORS THAT U.S. IS RECONSIDERING DECISION TO WITHDRAW FROM UNESCO

Senator Kasten: Given the fact that UNESCO has become anti-West, unwilling to defend the ideals of free thought and free expression, inasmuch as it alone among U.N. agencies has approved a program which includes substantial increases, it continues to push for the so-called "New World Information and Communications Order" which directly threatens the principles of free exchange of information and a free press, and for other reasons, you have announced the United States' decision to leave that agency.

I applaud that decision. However, we are already hearing rumors that that decision may be reversed despite the lack of any substantive progress on the issues which caused us to announce our departure.

Is there any truth to those rumors? If so, what real action by UNESCO would precipitate a reversal of this decision to leave that agency?

Secretary Shultz: Rumors that the U.S. is reconsidering its decision to withdraw from UNESCO are false; the decision to withdraw from UNESCO remains firm. At the same time, our withdrawal is not final until the end of this year. During this year the Administration will be attentive to any changes in UNESCO. Again, however, we do not expect significant change, as indicated by our decision to withdraw in the first place. Nevertheless, a UNESCO monitoring panel of eminent private citizens is being created to monitor any such changes in UNESCO and to report to me before the year's end. I will take account of the panel's report in determining whether sufficient structural and programmatic change has occurred to warrant a recommendation to the President that our withdrawal decision be reconsidered.

We have not compiled a list of reforms for UNESCO which result in a reversal of our decision since we are not interested in attempting to negotiate with UNESCO on this question. Changes that we would consider significant concern the same problems which precipitated our withdrawal decision: excessive politicization of issues, a statist approach to problem-solving, unrestrained budgetary growth, and atrocious management. It should be self-evident that, when we made our decision to withdraw, we did not consider substantial permanent programmatic and strutural changes likely.

TURKISH-CYPRIOT INDEPENDENCE

Senator Kasten: Many of us remain concerned about the action taken by the Turkish Cypriots.

What is the current state of efforts to reverse that action, and to bring all parties of the continuing Cyprus problem to negotiations?

Secretary Shultz: The U.N. Security Council passed Resolution 541 shortly after the November declaration of Turkish Cypriot statehood. That resolution, to which we continue to subscribe, called for reversal of the action and for denial of recognition of the self-declared entity by all nations of the world. The U.N. Secretary General is presently working with both sides attempting to find common grounds for progress toward a solution. He met recently with President Kyprianou and Turkish leader, Mr. Denktash, will be in New York this week for discussions. We hope progress will come from these meetings and that movement toward the goal they both espouse -- a federal solution -- can be made soon. We fully and actively support the Secretary General's efforts and maintain close contact with him and the two parties making clear our willingness to assist in any way we can.

ASSISTANCE TO ZAIRE

Senator Kasten: How important is it to have the levels of assistance proposed for Zaire in your budget request?

Secretary Shultz: Zaire is one of the largest and most important countries in Africa. It is a friend of the United States. Its size and influence make Zaire extremely important in the conduct of our African policies. Zaire has consistently supported U.S. objectives in the United Nations and on regional issues. It has sent 2,300 troops and aircraft to Chad to help that country defend itself against Libyan aggression. Zaire was the first African country to resume relations with Israel.

Over the last two years Zaire has taken major steps to reform its economy. The marketing of copper and cobalt has been reorganized and Zaire has implemented several key financial reforms sought by the IMF. The success of these reforms led the IMF to approve $350 million in new drawings for Zaire in December.

Now that Zaire has undertaken a major economic reform program long recommended by Western donors, we should signal support for a country that has consistently helped the U.S. achieve its objectives in Africa. The full $15 million each for MAP and ESF that we requested will be commensurate with the country's economic needs and strategic importance to the United States.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

GENERAL ISSUES

PROGRAM AND PROJECT CONCERNS WORLDWIDE

Senator Hatfield: Mr. Secretary, as you know, I have supported foreign aid for many years, particularly development assistance and U.S. contributions to multilateral organizations and banks. I favor a growth in development assistance as a means to resolve many of the underlying problems that are pervasive in Central America and Africa. However, I am greatly troubled when I read of GAO and A.I.D. Inspector General reports detailing inadequate audit trails, mismanagement of funds and failed projects based on unrealistic assumptions. Perhaps even more troubling to me is that while the specific problems are addressed and corrected as a result of these studies, they simply reoccur in other areas of the world. What can you tell me to assuage my concerns?

Secretary Shultz: The Agency for International Development has a vigorous system for reviewing projects from the time the concept of a project is first presented, through its actual design and implementation, to the final study of the project results. Throughout this process, A.I.D. applies - to the extent practical - the lessons learned from other projects. However, because there are always unique aspects to a project, no comparison between projects is perfect.

Moreover, the economic, social, technical and even political assumptions underlying a project will always involve some margin of error, particularly when one is dealing with countries where the accuracy, quality, and completeness of available data and information is uncertain.

Nevertheless, on a country-by-country basis, A.I.D. is undertaking efforts to improve our economic, social and environmental assessments and apply these analyses to our project development. Examples of these efforts to improve our information base are the Environmental Profiles and Social and Institutional Profiles which are underway in several countries. These have proven to be a very succesful tool in providing data on which project design can be based. As we gain experience in their development and use, these profiles will be extended to other country programs. In addition, we are emphasizing the need for stronger economic and social analyses of projects before they are approved.

Based on GAO and A.I.D. Inspector General reports, A.I.D. is also continuing its efforts to increase audit coverage in the area of commodity procurement. Actions are underway to improve a number of procedures in this area. Plans are in place to renew a contract to perform an increased number of commodity voucher reviews. Formation of a committee to study commodity procurement issues will result in recommended steps that will be implemented to strengthen internal controls, where needed.

It should be kept in mind, however, that in any large and far-flung organization such as A.I.D. there will always be problems and discrepancies arising. Our auditors are charged with uncovering such problems, and they do their job in a diligent and thorough manner. Moreover, by the time audit reports are published, A.I.D. has already taken, or is taking, the actions necessary to address the problems identified. Furthermore, the number of projects and amount of funding which fall into the category you suggest are very small when compared to A.I.D.'s total program and effort.

Senator Hatfield: I need not remind you that support for foreign aid among the American public has greatly diminished, and I suspect the problems I have mentioned above contribute greatly to that declining support. This support will be critical as the Congress considers the request for Central America. What assurances can you give to the American public that these abuses will not occur in the future? Also, what specific steps are you taking to implement the recommendations of GAO and the A.I.D. Inspector General throughout the entire foreign aid program?

Secretary Shultz: We do have an established system for dealing with audit recommendations on a continuing basis. Once an audit is completed and the findings and recommendations documented, they must be addressed by the bureau or mission concerned. This includes taking corrective actions, clarifying procedures, providing additional information relative to the findings and recommendations, etc. On a quarterly basis, the A.I.D. Auditor General compiles a list of "open" recommendations which have not yet been fully addressed. This list is made available to Agency senior staff.

In addition, Auditor General reports are made available to a wide variety of staff in the Agency on a regular basis. Specific audit reports are sent to a standard distribution list, including the Deputy Administrator, the Bureau Assistant Administrators, and persons closely related to the project or activity in question. And, every two months the Auditor General publishes a listing of all reports issued over the previous two months, including a synopsis -- ranging from one paragraph to one or two pages -- of selected reports detailing the lessons learned which have Agency wide-applicability. This bi-monthly list is sent to some 220 offices in the Agency, both overseas and in Washington.

Beyond this program, as a first step to improve the commodity procurement process, the committee being formed to study the process intends to establish requirements for issuing standardized Letters of Commitment throughout A.I.D. Also, with contractor assistance, A.I.D. has begun to increase the level of voucher audit coverage for commodities. The Handbook guidelines on Commodity Import Program monitoring will be reviewed to determine what changes, if any, are needed and whether or not suggested examples of arrival and end-use accounting systems should be incorporated or otherwise disseminated throughout A.I.D.

And, in December, 1983 A.I.D. issued a new Payment Verification Policy Implementation Guidance. This complements the efforts underway for improving our internal control systems. The guidance is based on the Administrator's approval of 16 Payment Verification Statements on financial and administrative management.

GOALS OF U.S. ASSISTANCE PROGRAMS

Senator Hatfield: Mr. Secretary, we agree, I believe, that U.S. foreign assistance is intended to foster stability, further U.S. national interests and, in certain strategic areas of the world, enhance our strategic defensive capabilities. I am concerned, however, that our aid programs have become so heavily politicized, so closely identified with the U.S.-Soviet confrontation, that what we are really doing is fostering instability and anti-Americanism. Meg Greenfield of the Washington Post defined the dilemma just this week when she said: "We find ourselves trying to change our clients' political disposition, their governing habits, their lifelong attitude toward human rights, toward corruption and toward democracy." She went on to comment that "either our client changes or he does not, but either because he didn't change or because he did, he tends to end up deposed or dead." Ms. Greenfield concluded that "our traditional arms-plus-moral exhortation course isn't working (and that we are pursuing) an unmanageable mix of military and diplomatic initiatives." I agree with her, Mr. Secretary, and I would appreciate your comments.

Secretary Shultz: Senator, while I have the utmost respect for your opinion, in this instance I cannot agree with your analysis or that of Ms. Greenfield's. At the outset, I disagree with the use of the word "clients" to describe countries to which we provide assistance; rather, we consider them as friends, allies, and/or key countries in strategic regions. I also disagree with the characterization of our aid programs as being heavily politicized, closely identified with the U.S.-Soviet confrontation, and fostering instability.

What our assistance programs aim to do is precisely the opposite: they seek to assist recipient countries attain the stability necessary to fostering economic and social development in a context of free access to the political process.

The two types of assistance we provide -- economic and security -- are complementary. A country which is being subjected to internal and/or external subversion must devote a significant level of resources to counteracting that subversion. Similarly, social and economic inequities and instabilities very often lead to political instabilities which open the way for those who would seek violent or radical solutions. Thus, it is incumbent on the United States to provide both types of assistance, as required, in order to reestablish or continue the stability necessary for economic development and social progress to flourish.

Insofar as the argument that the United States attempts to change political dispositions, governing habits, attitudes toward human rights, etc., I can only comment that we do not see this as a dilemma. The United States, in the minds of both our citizens and of many others throughout the world, represents long-standing ideas and ideals of social, economic and political participation. Through its example and support, it also represents a foil to those who would seek to limit or suppress such participation in the world.

Thus, if there is a dilemma it is not one we have invented or given rise to; rather, it is one created by the clear contradiction between our system and other, totalitarian or radical systems.

LEBANON

STATUS OF FY 1984 SUPPLEMENTAL AND REPROGRAMMING REQUESTS

Senator Hatfield: Last year during consideration of the FY 1984 supplemental appropriations bill this Committee agreed to provide $101 million to Lebanon. These monies were appropriated prior to the establishment of a political settlement with all parties to that conflict based on the justification that it was necessary to stabilize the Lebanese government to bring about a political settlement. Needless to say, that approach was not successful as the area of effective government control has diminished, moslem members of the government have resigned and the role of Syria has greatly increased.

In recent days it is my understanding that a proposed FY 1984 supplemental request has been withdrawn and a $46 million reprogramming has been postponed indefinitely. What would have to happen to resurrect the supplemental request and to go forward with the reprogramming?

Secretary Shultz: The Department had forwarded a request to reprogram $31 million in unallocated FY 1984 FMS to Lebanon. Because of heavy fighting which broke out in early February and at the specific request of Congress, the Administration has put this request on hold. The Department has also considered an FY 1984 supplemental request for Lebanon which has also been put on hold.

We are waiting to see how events evolve in Lebanon before we decide whether or not to send these requests forward. We have placed no explicit preconditions on forwarding these requests.

FY 1985 FMS REQUEST

Senator Hatfield: What is the status of the $15 million

FMS request given the current state of affairs in Lebanon? Is that money conditioned on the accomplishment of a political settlement or the continuance of the Gemayel Government?

Secretary Shultz: We have requested $15 million in FMS for FY 1985. We are hopeful that the situation will improve to the point that these funds can be used effectively to promote peace and stability in that country. Since FY 1985 funding will not be available until October of this year and will remain available through September 1985, we believe it is prudent to leave the request intact. We have set no explicit preconditions on the expenditure of these funds.

Senator Hatfield: What would have to happen to cause termination of our military assistance program?

Secretary Shultz: Our military assistance program is currently on hold pending the development of events in Lebanon. We have no plans to halt the military assistance program. If we could not be assured that the legitimate government in Lebanon could maintain control over the military assistance we extend, we would terminate the program.

MILITARY ASSISTANCE AND A POLITICAL SOLUTION

Senator Hatfield: Given the lack of success in Lebanon with providing military assistance prior to the development of a political solution, what assurance can you give me that such a policy will prevail in El Salvador?

Secretary Shultz: Without passing judgement on the President's policy in Lebanon, I think it is important to note that Lebanon and El Salvador are two entirely different situations. What I can assure you is that no acceptable political solution is feasible without military assistance. The Salvadoran government is making progress in key reform areas such as human rights, land reform and the building of democratic institutions. For their part, the guerrillas have recognized that they lack popular support, have identified these reforms as inimicable to their desire for power and have tried to derail them. Moreover, as you know, Senator, the guerrillas have so far rejected Salvadoran government offers to bring them into the political process, and have instead chosen to continue to try to achieve their aims by force of arms. Any indication that the Salvadoran military was faltering certainly would not encourage the guerrillas to lay down their arms, rather it would encourage them to continue the fight. We must not allow that to happen. we must now, not later, provide the Salvadoran military with the resources necessary to enable the military to create a secure atmosphere in which the reforms can to go forward.

PEOPLE'S REPUBLIC OF CHINA

AMENDMENT OF THE FOREIGN ASSISTANCE ACT

Senator Hatfield: I note that the Administration proposes to amend section 620(f) of the Foreign Assistance Act to remove the People's Republic of China and Tibet from the listing of countries prohibited from receiving U.S. assistance because they are considered Communist. The section allows the President to waive the restriction if he finds that: "(1) such assistance is vital to the security of the United States; (2) the recipient country is not controlled by the international Communist conspiracy; and (3) such assistance will further promote the independence of the recipient country from internatonal communism." Such a waiver has already been requested for Yugoslavia for the purpose of receiving military education and training.

I am perplexed about how the subcommittee is to consider such a request (amendment of section 620(f) of the Foreign Assistance Act). Is this to mean that this section is no longer appropriately applied to the People's Republic of China?

Secretary Shultz: To strengthen U.S.-China relations President Reagan decided in June, 1981, to initiate a review of all legislation that lumped China with the Soviet Bloc and that required discriminatory treatment which was no longer consistent with changes in relations between China and the Soviet Union or with our present strategic relationship with China. U.S. policy should reflect the fact that we view China as a friendly, non-allied country with which we share important security interests. We believe it is no longer appropriate to treat China as if it continued to be part of a monolithic Soviet Bloc, and our laws should, in principle, treat China in the same way as we treat all other friendly, non-allied nations.

Senator Hatfield: Why is the Administration choosing to change section 620(f) rather than having the President exercise his waiver authority?

Secretary Shultz: Waiver authority applies only to specific aid requests. However, we have no plans to initiate a bilateral aid program in China. We believe that section 620(f), which places China in the same category as unfriendly countries, is no longer appropriate to our relationship with China, and for that reason we are seeking a change in the language of section 620(f).

Senator Hatfield: How will this change affect present U.S. policy towards Taiwan?

Secretary Shultz: The ability to extend U.S. assistance to China will have no effect on present U.S. policy with respect to Taiwan. We remain committed to permitting a full range of unofficial contacts between the people of the United States and the people of Taiwan.

Senator Hatfield: Lastly, what military or economic assistance is the U.S. contemplating supplying to the People's Republic of China?

Secretary Shultz: As noted above, we do not presently intend to establish a bilateral assistance program for China, either military or economic. However, if the Foreign Assistance Act is amended to make China eligible, as other nations are eligible for U.S. assistance, we would hope to have them participate in on-going, centrally-funded, AID regional programs. They are presently barred from doing so. Under this approach the Chinese could be invited to participate in regional conferences and seminars, or joint research projects, in such areas as agriculture, energy and family planning. We would naturally consult closely with the Congress if, in the future, we should decide that bilateral assistance programs were in the interest of the United States. We would also, of course, come to Congress for the necessary authorization and appropriations.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

Senator Hatfield: The Governing Council of IFAD is currently meeting in Rome to discuss the second replenishment. At the present time, the U.S. is one of only three countries, the other two being Iran and Libya, that have not completed their contributions under the first replenishment. It is the intention of the Administration to complete our contribution under the first replenishment?

Secretary Shultz: Yes. So far the U.S. has paid $90 million of its total $180 million pledge to IFAD's first replenishment. The Administration has requested an additional $50 million for IFAD in the FY 1985 budget and intends to request $40 million in FY 1986 to complete the U.S. pledge.

Senator Hatfield: Given the fact that the U.S. is already one year in arrears, would the Administration support a supplemental request for FY 84 and an increase in the FY 85 request to ensure that this slippage does not occur?

Secretary Shultz: We do not envisage the need for including IFAD in a supplemental FY 1984 request. IFAD has already received the President's full request in FY 1984, while a number of other foreign assistance programs remain underfunded.

Senator Hatfield: It is my understanding that the U.S. will present a negotiating position that would require 50-50 burden sharing between the OPEC and OECD countries and a minimum level of overall funding of $900 million. The positions of the other OECD nations and the OPEC countries will likely be ascertained during the current meeting.

Are there parameters to the OECD and OPEC positions outside of which the U.S. will not participate? Such as burden-sharing below the present level of 57-43? Overall level of funding below $900 million? Maintenance of the u.S. share at 16% or higher? Continuing the U.S. contributions at $180 million, regardless of overall funding? Stretchout of the replenishment period to four years?

Secretary Shultz: At the present time the U.S. is prepared to participate in IFAD's second replenishment, provided there is a 50/50 OECD/OPEC replenishment split, a maximum of 15 percent U.S. relative share, a maximum $50 million annual U.S. contribution to be paid over FY 1986-88, and satisfactory resolution of certain technical policy issues. We have not established any specific minimum level for the replenishment.

At the February 29-March 1 IFAD replenishment meeting in Rome, there was support from the OECD group for obtaining rough parity in OECD/OPEC burdensharing. We are currently evaluating the results of the meeting to determine the next steps in preparation for the fourth session of consultations on IFAD's second replenishment, May 25-26, in Rome.

CARRY OVER OF INS-APPROVED REFUGEES

Senator Hatfield: Based upon current processing trends for FY 1984, what do you expect the carryover of "INS-approved" refugees to be as we enter FY 1985?

Secretary Shultz: The carryover of refugees who were approved by the INS in FY 1984 but whose arrival in the U.S. will occur in FY 1985 is an important part of our efforts to create a steady, even flow of refugees in the U.S. admissions program.

In order to keep the refugee processing centers (RPC's) at Bataan, Galang, and Phanat Nikhom filled to their respective capacities so that the flow of refugee students into and out of classes can be stabilized, as many as 23,000 students will be enrolled at the end of FY 1984.

In order to maintain a steady flow of refugees ready to enter the RPC's, a "pipeline" of three or four months of future students will be INS-approved at the end of FY 1984. This pool of refugees will consist of 10,000 to 15,000 persons depending on circumstances related to the requirements of processing.

U.S. REFUGEE ADMISSIONS IN FY 1984

Senator Hatfield: Is it your belief that the U.S. will resettle up to the ceiling of 72,000 for FY 1984?

Secretary Shultz: Fiscal year refugee admissions authorizations are, as you are aware, ceilings rather than targets or goals.

The continuing reviews of the flows of refugees by the Bureau for Refugee Programs and its processing and movement schedules indicate that the regional ceilings will be fully used at the end of the fiscal year. Estimates of refugee populations needing U.S. resettlement made at the time of the Congressional consultations in September 1983 have not been altered, and no obstacles to processing these populations have developed to hinder admissions objectives.

TIME LAG BETWEEN INS APPROVAL AND U.S. RESETTLEMENT

Senator Hatfield: What can be done to reduce the lag between INS approval and U.S. resettlement?

Secretary Shultz: Lag between INS approval and U.S. admission arises for several reasons.

Our policy of providing training and orientation to more than 90 per cent of the refugees from Indochinese nations before their entry to the U.S. means that English-as-a-Second- Language and Cultural Orientation (ESL/CO) courses will delay the refugees' entry into the U.S. by four to six months. The critical necessity of ESL/CO for the refugees' adaptation and self-sufficiency in the U.S. -- that is for their successful resettlement -- implies that this part of the lag should not be reduced.

The task of maintaining the training site at full capacity, while maintaining a smooth and orderly flow of refugees through the processing, training, and movement cycles, is a complex one when the large number of refugees and their differing needs are taken into account. Steady processing of this flow requires that a three- to four-month backlog of INS-approved refugees be maintained in the first asylum countries so that refugees will be prepared to be transferred to training sites as soon as space becomes available. This part of the lag can be reduced only by the creation of additional processing facilities. In all, the usual lag for Indochinese refugees is in the range of eight to ten months, part of which cannot be reduced under our current policies but part of which could be reduced with expanded facilities.

The time lag between INS approval and U.S. admission for non-Indochinese refugees normally runs from three to five months. In some instances legal exit requirements of first asylum countries are burdensome. For the most part, however, the delays occur because of the need for voluntary agency sponsorship assurances and determination of final destinations. We continue to work with the voluntary agencies to expedite the obtaining of sponsorship assurances, while recognizing their difficulties in locating sponsors, particularly for those refugees without family members of other associations in the U.S. We expect continued attention to result in further progress.

NATIONAL SECURITY DECISION DIRECTIVE (NSDD) 93

Senator Hatfield: Do you feel that National Security Decision Directive (NSDD) 93 has been fully implemented? What has the SIG established in NSDD 93 accomplished thus far?

Secretary Shultz: NSDD 93 has been fully implemented and provides a continuing foundation for addressing many problems which may arise in the U.S. refugee program in the future.

On August 15, 1983, the Immigration and Naturalization Service issued new World Wide Processing Guidelines. Included in the Guidelines are twenty-four categories of persons who are known to be targets of persecution in the three Indochinese nations. Cooperation among many agencies including State and Justice was necessary for the attainment of this objective. The progress resulting from this includes a stabilization of approval rates for Indochinese refugee applications at about 90 per cent. Performance of this objective of the Directive has been good.

The Senior Interagency Group (SIG) contemplated by the Directive has been created and is operating. The SIG has been instrumental in providing interagency policy review of important issues. These issues include:

1. An interagency perspective on admissions ceilings to be proposed by the Administration.

2. An assessment of the needs of refugees in Central America.

3. An evaluation of U.S. participation in the forthcoming ICARA II conference.

4. The status of improvements in the Orderly Departure Program.

The SIG has now held two meetings, and two subgroups representing concerned agencies have been formed on Humanitarian Assistance to Refugees in Central America and the U.S. role in ICARA II.

QUESTIONS SUBMITTED BY SENATOR INOUYE

CRISIS ORIENTATION OF ADMINISTRATION AT ODDS WITH CARLUCCI COMMISSION

CENTRAL AMERICA ASSISTANCE

Senator Inouye: Mr. Secretary, in your prepared remarks (page 3), you make favorable reference to the Carlucci Commission finding which states: "To meet U.S. foreign policy objectives, significant increases in real levels of assistance will be required."

In his appearance before this committee, OMB Director Stockman noted that, for the development assistance programs, the Administration would propose only a five percent increase, due to "increased costs of U.S. development efforts in the third world."

The only significant increases in real levels requested by the Administration are for military and economic stabilization programs in Central America.

Would it be unfair to suggest that this is a further indication of the crisis orientation of American foreign policy under this Administration?

Secretary Shultz: There is a crisis in Central America, but there are no crisis-management solutions to it. Far from being crisis-oriented, U.S. policy is designed to work over the long haul by addressing the underlying causes of conflict in Central America:

First, economic growth became destabilizing because it was markedly inequitable. That is why we've put unusual emphasis on social and economic reform and government services to the poor.

Second, closed political systems provided no outlet for either new social groups or the poor. That is why we have emphasized elections and the democratic process.

Third, reliance on violence to resolve conflict became engrained. That is why we are insisting on an end to death squads. That is why we are working to strengthen judicial processes. That is why, again, we are promoting democracy as a peaceful mechanism to resolve conflicts.

Fourth, the downturn in the global economy, exacerbated in several countries by guerrilla economic warfare, has been devastating to the Central American economies. That is why substantial financial and economic assistance is vital.

Fifth, the Salvadoran guerrillas have become a formidable military force because they've gotten the support they've needed from Nicaragua and Cuba, the Cubans being subsidized by the Soviets to the tune of $4.6 billion a year. That is why U.S. military assistance is needed and why the military component of our policy has, if anything, been too small.

Senator Inouye: Would it be unfair to suggest that a crisis orientation in previous administrations brought with it the neglect of Central America and, thereby, contributed to the present crisis there?

Secretary Shultz: That we have paid too little attention to Central America in the last quarter-century is undeniable. But not everything that goes wrong in the developing world is our fault and it would be easy to overestimate the opportunities that were available to policymakers in previous administrations to encourage the kind of basic reforms that might have avoided this crisis.

The causes of conflict, as enumerated above, are rooted in patterns of economic, political and social development over which we, as a foreign power, have had marginal influence. Crisis in Central America -- because governments there now need our help -- is providing us the first meaningful opportunity in recent history to help address these fundamental problems. Our policy is responding to this opportunity by using military assistance to prevent a guerrilla victory in the short term and thereby giving the other, long-term policy elements a chance to work.

EAST ASIA AND PACIFIC ASSISTANCE

Senator Inouye: To return to the thought suggested by your quotation of the Carlucci Commission, what U.S. foreign policy objectives in Asia are not being met -- there are no "significant increases in real levels of assistance" for Asia. Is that not correct?

Secretary Shultz: U.S. foreign policy objectives in Asia can be met without substantial increases in assistance except in the case of the Philippines. In the Philippines we have requested a total increase in bilateral assistance programs of nearly $80 million to bring the total program level from $151 million in FY 84 to nearly $231 million for FY 85. The increase of $80 million is in security assistance: from $50 to $60 million in FMS; a new $25 million in MAP; and from $50 million to $95 million in Economic Support Funds (ESF) for economic development. The increase in security assistance is, as you know, in accordance with President Reagan's "best effort" pledge to seek $900 million of assistance over a five year period following the review of our Military Bases Agreement last spring. These bases have immense strategic value for the U.S. Moreover, the U.S. presence and assistance can help the Philippines to cope more effectively with its difficult economic and security problems. In addition to security assistance, we have a continuing development assistance program at the level of $40 million per year, and a PL 480 Title II program of approximately $10 million in FY 85.

CENTRAL AMERICA'S ABSORPTIVE CAPACITY

Senator Inouye: General Accounting Office briefings before Congress and recent news articles indicate that the Agency for International Development's capabilities to implement and monitor AID programs in Central America are already overwhelmed with current funds. The New York Times has reported that the State Department's own audits have revealed that Central American Assistance efforts suffer from mismanagement and corruption. The Wall Street Journal indicates that we have almost $500 million in unused AID money in the pipeline to Central America, some of it reaching back to 1979.

In recent days, Administration officials have dismissed these findings as trivial. It is said that there are incidents of mismanagement but no more than would be found in an audit of, say, a U.S. corporation. I regard them as far more serious, and I'll tell you why.

On March 17, 1982, nearly two years ago, a senior official in the Administration told this Committee, "We have a self-imposed policy in AID to assure that U.S. imports are purchased with U.S. money. We can set a condition that the funds are used for essential imports and not, for example, for certain luxury goods."

GAO found that statement to be untrue. There are no conditions, and we can't be assured that U.s. assistance is used as intended.

On the question of capital flight, this same official said, "We seek to minimize these risks by monitoring import transactions." The New York Times has reported that the Arthur Young and Company study found that the single most important element of monitoring for evidence of capital flight -- the price-checking unit to the Central Bank in El Salvador -- was ineffective.

Is it not true that these are serious problems and that the failure to correct them contributes to corruption?

Secretary Shultz: In general we contend that A.I.D. programs in Central America are well managed and are achieving their objectives. This is not to deny that some problems exist; however, the barrage of recent allegations and criticisms in the press are vastly out of proportion to real circumstances. Proven instances of corruption or misuse of A.I.D funds are rare.

The Arthur Young Study of the El Salvador Central Bank was performed at the request of the Central Bank of El Salvador to examine possibilities of increasing the availability and improving the allocation of foreign exchange in ways most beneficial to the Salvadoran economy. Briefly, the Arthur Young team concluded that:

- Official procedures for allocating foreign exchange have led to bottlenecks;
- the Bank's approval and allocation decisions often appear to be arbitrary and influenced by outside pressures.
- capital flight occurs through over-and-under-pricing of invoices (no quantitative assessment made) and the three-person price checking unit was inadequate to protect against this potential abuse.

Since the report, the Central Bank has taken action to implement the most important recommendations of the report, including:

- more detailed classification of priorities in allocating foreign exchange;
- mechanization of all decisions relating to export transactions; steps taken to mechanize review of import transactions and price-checking processess in the next few months;
- numerous actions to strengthen the effectiveness of the price checking unit, including increasing the size of the unit to ten persons, moving the unit to the office of the second vice-president, and arranging for U.S. technical assistance -- to begin in one or two months.

Further progress on implementing these recommendations and strengthening the price checking unit will be conditions of future U.S. assistance.

The General Accounting Office (G.A.O.) Study on U.S. Economic Assistance to Central America criticizes our balance of payments assistance to Central American countries, as follows:

- our foreing exchange is commingled with the foreign exchange resources of recipient governments; thus, we don't have direct control over the use of our funds;

- we don't know precisely how our funds are spent;
- controls to prevent capital flight through over-invoicing of imports are wead.

It is *technically* true that we cannot directly link funds originating in the U.S. Treasury to the payment of a U.S. supplier of export goods. However, A.I.D. Mission staff review full documentation on import transactions from the U.S. in an amount equivalent to our assistance, to verify U.S. source, value, and eligibility of the imports.

This approach provides us leverage on improvement of the recipient government's management of all foreign exchange flows and more direct impact on our key objective of economic stability.

The *New York Times* article on February 20 on "Abuses Disclosed in A.I.D. Programs in Latin America", asserting extensive mismanagement and corruption, was misleading in several respects. First, most of the cited reports do not contain allegations of improper use of A.I.D. funds. The few incidents noted are minor in scope. Second, the story does not acknowledge that significant management imporvements have been made on all four audited projects. On these four projects, 88 percent (56 of 64) of the audit recommendations have been carried out.

Senator Inouye: How can we be assured that our assistance is used as intended?

Secretary Shultz: In addition to the specific meausres being taken in response to the aforementioned report recommendations, the following measures are expected to reinforce existing management measures and to assure effectiveness of and controls on the use of our economic assistance in Central America:

- an addition of 82 persons, direct-hire and contractors, will complement Mission staff in Central America in the initial stages of the period encompassed by the Kissinger Plan. Including recent assignments, we plan to increase U.S. direct hire staff by one-third over FY 83 levels;

- regional audit capability will be doubled by adding 6 Spanish-speaking U.S. auditors and 6 foreign national audit personnel;

- special emphasis continues on institutional strengthening and human resource development;

- increased reliance on A.I.D.-financed contractors to assist recipient government offices responsible for financial management, procurement, and logistice support;

- continued, emphasis on strengthening overall management of foreign exchange by central banks and establishing reliable controls.

Senator Inouye: Do El Salvador and the other Central American countries have the capacity to absorb $8.4 billion in economic aid?

Secretary Shultz: The NBCCA recommendation of $8.4 billion over 5 years involves annual assistance of only about 5% of the Gross Domestic Product of the region -- a lower ratio than that of aid previously made available to some other parts of the world. The region's recent shortfall in export earnings from coffee and sugar due to lower prices, plus higher costs for imported oil, amount to about $1.5 billion per year -- the same general magnitude as the proposed assistance.

The need for external assistance is enormous. El Salvador, the hardest hit, has suffered a 25 percent decline in GDP since 1979, due to the dislocations of internal conflict and external economic conditions. The other five Central American countries included in our request have been similarly afflicted by adverse internal and external economic shocks which have resulted in declining GDP, excess capacity and capital shortfalls.

To varying degrees throughout the region, physical infrastructure is undeveloped, health and education systems need expansion, and investment in productive capacity essential to employ rapidly expanding populations has lagged. Existing excess capacity can quickly be brought back into play -- if working capital and imported inputs are provided to private firms, physical infrastructure is restored and social systems developed and improved with financial support for high priority public sector investment currently suspended or cut back because of austerity programs.

Obviously we will need to monitor use of our funds carefully to ensure it is going to the purposes we propose. We have designed flexibility into the program, especially in the out-years to ensure we can redeploy funds as needed and to limit the possibilities for the buildup of a pipeline of unproductive projects.

GRENADA/LEBANON PIPELINE OF ASSISTANCE

Senator Inouye: On the 27th of October 1983, The President, in a televised nationwide address, spoke on the subject of America's commitment to peace. As an illustration of this commitment, he referred to the U.S. invasion of Grenada, which he said was a Soviet-Cuban colony being readied as a "major military bastion." Evidence of this was to be found, he indicated, in Cuban support for construction of an airport which was claimed to be for tourist trade but which "looked suspiciously suitable for military aircraft including Soviet-built, long-range bombers." This is the Point Salines Airport.

We have gotten wind of a proposal to reprogram up to $40 million for the unexpended funds appropriated for assistance to Lebanon and to use these reprogrammed funds to complete the Point Salines Airport. Is this proposal under discussion in the Department?

Secretary Shultz: Yes, we hope to reprogram to Grenada $40 million in Economic Support Fund monies now earmarked for Lebanon but not yet obligated. Since the Lebanon funding was earmarked by the Congress, however, a Section 614(a) waiver by the President will be required before the reprogramming can take place. We are hopeful that the President will authorize us in the near future to consult with Congress on this proposed action. The funds would be used for completion of the Point Salines Airport and for repair or replacement of damaged public and private facilities, including the telephone exchange, mental hospital, the radio station, and for other economic development programs.

Senator Inouye: This is a bit confusing. The President claimed the airport was for military use. If so, why would we wish to pay for its completion?

Secretary Shultz: The President's statement about the airport's potential for military use referred to the former Bishop government's plans for the airport. His government made no attempt to upgrade roads, hotels, and other elements of Grenada's infrastructure which would have been necessary to attract tourists, the reason for which Bishop claimed the airport was being built. The airport's military potential was confirmed in a 1981 public statement by the then Grenadian Minister of Mobilization. Bishop's close alignment to the Cuban, Soviet, and Nicaraguan governments, as well as the location of a major military facility and warehouses containing arms and ammunition adjacent to the airport amply demonstrated his government's plans for the airport. In contrast, the current Grenadian Government is completing the airport solely because of its critical role in promoting tourism, as well as agricultural and industrial development. This fact has been recognized by potential investors, which are being attracted to Grenada as a result of the new government's efforts. The government is developing a three year plan to upgrade simultaneously Grenada's roads, other infrastructural elements, and hotels.

Senator Inouye: Are we going to use it as a military airbase?

Secretary Shultz: The Grenadian government has not offered nor have we requested permission to use the airport as a military base.

Senator Inouye: What amount of the funds appropriated for Lebanon remains unspent? Will this be returned to the U.S. Treasury?

Secretary Shultz: Congress appropriated $150 million in ESF for Lebanon in FY 1983. This sum was to be spent largely for the reconstruction of Lebanon in the aftermath of the June

1982 Israeli invasion. Of the original $150 million, $20.9 million has been obligated. Roughly one half of the obligated funds have already been spent. Another $40 million is firmly committed for relief, hospitals, and support to American schools in Beirut.

There are no plans to return any of this ESF funding to the Treasury. Once conditions in Lebanon permit, we expect to continue reconstruction efforts.

Senator Inouye: What is the total assistance package for Grenada going to be for Fiscal Year 1984?

Secretary Shultz: The total assistance package for Grenada in FY 84 is expected to be about $47 million. The breakdown of this assistance is described below.

Through the Office of Foreign Disaster Assistance (OFDA) we have provided emergency relief and intermediate rehabilitation assistance totalling $2.2 million. These funds provided food, juices, water containers, generators, and emergency cash payments as well as health personnel, sanitation equipment, electric power and road repair.

We have provided $5 million in balance of payment support funds to provide fiscal assistance to the GOG.

AID projects now being implemented include a Project Hope health project ($1.5 million), a free labor union development project with AFL/CIO's AIFLD ($0.4 million), and a private sector development activity with Coopers & Lybrand ($0.3 million).

Projects under development by AID include activities in road repair, health care and planning, private sector development, agriculture, education and training. AID is also making arrangements for multi-donor participation to complete the Point Salines Airport for all-weather international air traffic. The U.S. plans to provide up to $19 million toward the completion of this very high priority project. In addition, AID is planning to replace and reconstruct facilities and equipment that was damaged in the course of the October operations. This includes the mental hospital.

Senator Inouye: How many U.S. troops remain in Grenada at this time?

Secretary Shultz: There are about 250 U.S. military personnel in Grenada at the request of the Grenadian Government. They are providing security, logistical, administrative, and medical support to the approximately 470 man Caribbean Peace Force, comprised of military personnel from the neighboring Caribbean islands.

AID TO ISRAEL

Senator Inouye: The Administration proposes to cut economic assistance to Israel by $60 million and to reduce the availability of financing for arms purchases by Israel by $300 million.

Will this not undermine Israel's economic and military strength at a particularly critical moment in the Middle East crisis?

Secretary Shultz: No. The Administration's proposal, when the shift in terms is taken in account, will provide about as much positive economic impact as the Congress' FY 84 appropriation level. This is because of the savings in interest payments associated with the all grant FMS program to which we are moving. These interest savings, moreover, continue to accrue throughout the 30 year period that the Government of Israel would otherwise have been making payments.

The Administration's economic proposal is also carefully devised to address long-term Israeli economic concerns by providing endowment funding for four binational foundations whose work is directly germane to the Israeli emphasis on science and technology based industry.

With respect to FMS we have carefully analyzed the cash flow features of the Israeli program. Israeli officials agreed with our conclusion that, in view of the well over $2 billion in FMS currently unexpended, a level of $1.4 billion FY 85 will allow Israel to meet its legitimate military requirements.

The program we have proposed is fully sufficient and constitutes a very real statement of political support at this point.

Senator Inouye: I understand that the Administration proposes to provide $1.4 billion in military assistance to Israel on a grant basis. This is $300 million less than was provided in the mixed grant/loan program in the current fiscal year. How is Israel to absorb that reduction?

Does this reduction undermine the strategic cooperation agreement with Israel?

Secretary Shultz: Because the Israeli program operates on a cash flow basis it was possible for us to sit down with the Israelis and project requirements for actual payments through Fiscal Year 1985. On the basis of that projection we, and the Israelis, agreed that $1.4 billion was what was required. There is, in effect, no cut to absorb and no change in procurement patterns to be required. The figure proposed in no way undermines strategic cooperation between the U.S. and Israel, which is under discussion through the Joint Political Military Group.

Senator Inouye: Mr. Secretary, I believe Israel is one of the countries to which you refer when you state, "military assistance repayments have become or threaten to become a large fraction of total debt service." I also believe that, in Israel, "repayment of military assistance loans takes up foreign exchange needed for economic growth."

Has this Administration given thought to forgiving repayment of outstanding balances on prior-year military assistance loans?

Secretary Shultz: The Israelis have continued to make clear that they do not believe theirs is a debt crisis situation of the sort that requires rescheduling or forgiving of past indebtedness. They remain current on all payments.

Senator Inouye: What is the outstanding balance?

Secretary Shultz: As of September 30, 1983 total principal of $9,245,422,000 was outstanding and expended.

Senator Inouye: How much will Israel have to repay in Fiscal Year 1985?

Secretary Shultz: Total payments (principal plus interest) in FY 85 will be $981.9 million.

Senator Inouye: How does this compare to the amounts repayable in Fiscal Year 1986 and 1987?

Secretary Shultz: In FY 86 the total repayable will be $975.2 million and for FY 87 $1,004.9 million.

QUESTIONS SUBMITTED BY SENATOR JOHNSTON

THE ROLE OF PUERTO RICO AND THE VIRGIN ISLANDS IN THE CARIBBEAN

Senator Johnston: Almost two years ago when this Subcommittee held hearings on the Caribbean Basin Initiative I raised a number of questions with administration witnesses from the Department of State, AID and the Special Trade Representative's Office about whether Puerto Rico and the Virgin Islands would be given a constructive role in our efforts to heighten our presence in the Caribbean. One of the items then highlighted was a grant of $150,000 which the Administration stated, indeed the President stated in his transmittal message of the CBI to the Congress, would be requested to establish a cultural center at the college of the Virgin Islands.

That request never came forth, despite the fact that the Administration managed to submit a budget amendment in 1982 for some $350 million for CBI countries which the Congress appropriated on the FY 1982 Supplemental Appropriations bill.

On several occasions, the Virgin Islands has submitted proposals under AID contract solicitations to participate in projects sponsored by AID in the Caribbean. To date, I am advised that these proposals have not met with success.

In my view, we are missing a good opportunity here to use these showplaces of democracy in the Caribbean as centers for strengthening our ties to other Caribbean countries.

So far, little if anything has been done to this.

FURTHERING GOALS AND STRENGTHENING TIES IN CARIBBEAN

Senator Johnston: What steps has A.I.D. taken to use the resources of the Virgin Islands and Puerto Rico to further our goals in the Caribbean and strengthen our ties to these countries?

Secretary Shultz: A.I.D. has maintained an active dialogue with Puerto Rican officials on Puerto Rico's participation in A.I.D.-sponsored projects in the Caribbean Basin and other Latin American countries. AID staff have exchanged visits with Puerto Rican government officials, and have participated in Caribbean Basin Initiative (CBI) seminars in San Juan. Puerto Rican trade missions have been sent to Jamaica, the Dominican Republic and Costa Rica, and assistance agreements have been signed between the Commonwealth and USAID/Jamaica.

Following are some highlights of A.I.D.'s recent cooperation with Puerto Rico:

-- The Puerto Rican Secretary of State participated in the Latin American and Caribbean A.I.D. Mission Directors' meeting in January 1983. Ways to increase Puerto Rican participation in A.I.D.-sponsored projects were discussed.

-- Puerto Rican personnel assisted in project design work for AID programs in Haiti, Jamaica and Costa Rica.

-- Under A.I.D. financing, Puerto Rican personnel have provided training and management assistance to the Jamaican National Investment Promotion Corporation and the Master Builders Trade Union. They also trained Costa Rican officials on economic development, finance, and management subjects.

-- The Senior Vice President and Manager of the International Division of the Banco Popular de Puerto Rico has addressed AID/W staff on services available to private enterprises in Puerto Rico.

-- A.I.D. has offered Puerto Rico Economic Development Administration staff opportunities to attend the Agency's Project Development and Evaluation courses to better prepare them to participate in all stages of A.I.D.'s program work.

-- A.I.D. staff have addressed seminars sponsored by the U.S. Department of Commerce and Puerto Rico's Department of Commerce, covering such material as the CBI in general, exporting professional services from Puerto Rico into the Basin and how to do business with A.I.D.

With regard to the U.S. Virgin Islands (USVI), A.I.D. staff have met with personnel of the USVI to review future opportunities. It has been agreed that the USVI would have to more carefully identify areas in which they have a comparative advantage to facilitate their participation in bidding for A.I.D-sponsored projects.

Representatives from USVI and Puerto Rico's Washington offices were invited to join the U.S. delegation to the Sixth session of the Caribbean Group for Cooperation in Economic Development, held at World Bank headquarters in February 1984, to facilitate their contacts with Latin American officials and increase their knowledge on opportunities in Latin America.

Senator Johnston: Do you have any specific plans to improve this role in the future? If so, what are these plans?

Secretary Shultz: We have developed a Plan of Action which we believe will increase significantly Puerto Rico's and the U.S. Virgin Islands' (USVI) participation in A.I.D.-sponsored projects in Caribbean Basin and other Latin American countries. The plan includes the following activities:

1. Carry out an inventory of resources in Puerto Rico and the USVI. A directory of such resources will be prepared and distributed to A.I.D. Missions and Washington offices to facilitate the identification of potential contractors.

2. Increase and expedite the flow of information (such as advertisements in the Commerce Business Daily) on A.I.D. activities to potential contractors in Puerto Rico and the USVI.

3. Presentation on A.I.D. activities at educational facilities in Puerto Rico and the USVI which have the capability to train A.I.D.-financed participants from Latin America.

4. Seminars in Puerto Rico and the USVI on opportunities to participate in A.I.D.-sponsored projects and on A.I.D. bidding/procurement procedures.

5. Publicity on contract awards to Puerto Rican and USVI entities to stimulate increased bidding on prospective contracts.

6. Establishment of a coordinating mechanism composed of representatives of A.I.D. and the public and private sectors of Puerto Rico and the USVI to promote on a sustained basis increased Puerto Rican and USVI participation in A.I.D.-sponsored projects.

7. Explore the feasibility of establishing a Financial Service Center in Puerto Rico to serve the Caribbean Basin countries.

8. Explore the feasibility of establishing an Energy Research and Development Center in Puerto Rico to serve the Caribbean Basin and other Latin American countries.

Senator Johnston: How many, if any, contracts have been awarded to the Virgin Islands of those solicited for projects on the Caribbean?

Secretary Shultz: During FY 1982 and 1983 we have no records of any contracts or grants being awarded to institutions located in the U.S.V.I.

Senator Johnston: How many proposals have been submitted by the V.I. for such contracts?

Secretary Shultz: Since proposals may be submitted on an individual project-specific basis to any of our A.I.D. Missions requesting services, this is a difficult question to answer accurately. We are aware of a joint venture in road construction which is positioning itself to compete on road construction projects in the Eastern Caribbean. In addition, we are now reviewing a health services proposal from the U.S.V.I.

Senator Johnston: Do you have any concrete plans to include the College of the Virgin Islands in any of the conferences and studies underway or planned?

Secretary Shultz: Beyond the forthcoming Department of Commerce CBI conference scheduled for the U.S.V.I., we are not aware of any other conferences or studies underway or planned in which A.I.D. would participate.

Senator Johnston: The Health Department of the Virgin Islands is interested in being established as the Medical Center for the Eastern Caribbean. Have you assessed this proposal? When will you assess it?

Secretary Shultz: A.I.D. has received the proposal and is presently reviewing it. However, proposals of this nature would require the approval and support of the respective Prime Ministers of the Eastern Caribbean republics. Given the relative wealth of medical teaching and clinical service institutions throughout the sub-region, especially the medical centers of the University of the West Indies in Jamaica, Barbados and Trinidad, as well as the various national facilities in the sub-region, it is not likely that a separate center outside of the Eastern Caribbean would be supported by these republics. Finally, the proposal involves sites, e.g., Martinique, Netherland Antilles, St. Maarten and the B.V.I., which are not independent and whose economies would not justify their becoming A.I.D. recipients.

THE FUTURE ADMINISTRATION OF MICRONESIA

Senator Johnston: At precisely what date does the Administration propose to transfer administrative functions now located in the Department of the Interior over the Federated States of Micronesia and the Marshall Islands to the Department of State?

Secretary Shultz: Federal responsibilities and the federal role in general under the Compact of Free Association will not be equivalent to the role presently exercised by the Department of the Interior under the Trusteeship. Therefore, upon the effective date of the Compact, present administrative functions will cease and the new federal role, tailored to the authorities and responsibilities of the United States under the Compact, will begin.

As you know, under the official Administration proposal for the management structure to carry out this role, US policy guidance towards Micronesia will continue to be provided by the President, acting through the NSC and an Interagency Group similar to that which currently oversees the Office of Micronesian Status Negotiations. An interagency professional staff, contemplated to be housed in the Department of State, headed by a director and comprised of permanent members from the Departments of Defense, Interior, Commerce and State will carry out the day to day responsibilities of managing the new relationship with the freely associated states. Other departments and agencies will contribute personnel and technical assistance as necessary to fulfill the particular requirements of the Compact and the new political relationship of free association.

Senator Johnston: Do you now plan to spend any funds appropriated in FY 1983 as part of the State/Justice/Commerce appropriation bill for construction, acquiring or in any way putting into place housing or office space or any other facility for State Department personnel in the FSM or in the Marshall Islands?

Secretary Shultz: There were no funds appropriated in FY 1983 for Micronesia and we did not spend any funds on these items.

Senator Johnston: Does the FY 1985 budget request or FY 1984 supplemental request for State Department construction or any other account contain any funds designated for, or which could be used for, such construction or acquisition or placement of personnel in either the FSM or in the Marshall Islands?

Secretary Shultz: The State Department did not request supplemental funds for FY 1984 for construction in Micronesia. However, if Congress acts favorably on the Compact, Department may consider spending approximately $93,000 on a pre-feasibility survey for construction during FY 1984. For FY 1985, the State Department has requested funds totaling approximately $3,193,000. These funds would be allocated as indicated below:

1985 STATE DEPARTMENT APPROPRIATIONS REQUEST FOR MICRONESIA

	Positions	Funds ($000)
Commerce, Justice, State Bill		
Salaries and Expenses		
Ponape Resident Office.........	7	$ 752
Majuro Resident Office.........	6	619
Office of Micronesia Affairs...	5	222
Subtotal S & E	18	$1,593
Acquisition, Operation and Maintenance of Buildings Abroad		
Development Cost for office buildings and residences......	-	$1,600
Total, State bill...	18	$3,193

SUBCOMMITTEE RECESS

Senator KASTEN. The hearing is adjourned. We will stand in recess until 10 o'clock tomorrow morning, at which time we will receive testimony from the Honorable Jeane J. Kirkpatrick.

[Whereupon, at 12:10 p.m., Thursday, March 1, the subcommittee was recessed, to reconvene at 10 a.m., Friday, March 2.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

FRIDAY, MARCH 2, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m. in room SD–192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, D'Amato, Rudman, Specter, Stennis, and Inouye.

UNITED NATIONS

U.S. PERMANENT REPRESENTATIVE

STATEMENT OF HON. JEANE J. KIRKPATRICK, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

ACCOMPANIED BY ALLAN GERSON, SPECIAL ASSISTANT

INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order. This morning we continue our hearings on the fiscal year 1985 budget request. Our witness today is the Honorable Jeane J. Kirkpatrick, the Permanent U.S. Representative to the United Nations.

Jeane, it is again a personal pleasure to have you before the subcommittee. You have continued your outstanding work in the United Nations, but more importantly as a close advisor to the President of the United States on foreign policy matters. We have your statement, which will be inserted for the record.

U.N. MEMBER VOTE REPORT

And also, without objection, I am going to include the report which has been submitted, as required by law, on the degree of support member nations of the United Nations have given to U.S. policies for the past year. It is my intention to request that this report be printed as a separate committee document. I know that demand for copies of it will be great.

[CLERK'S NOTE: The report on member nations' votes in the United Nations has been printed as a separate document and appears as part 3 of the regular Foreign Assistance budget hearings.]

Senator KASTEN. We would like for you to summarize your opening statement, so that I and other members of the subcommittee will have adequate time for questions. We thank you for joining us this morning, and I look forward to your testimony.

STATEMENT OF AMBASSADOR KIRKPATRICK

Ambassador KIRKPATRICK. Thank you very much, Senator Kasten. It is always for me truly a pleasure and a privilege to testify before this committee with regard to U.S. participation in the United Nations or any other subject of mutual concern involving the foreign affairs of our country.

I think today is, as I said in my prepared statement, a particularly important and auspicious occasion, since it marks the first report made to Congress relative to implementation of section 101(b) of the Continuing Resolution of November 14, 1983, which calls on the Permanent Representative of the United States to the United Nations to furnish country by country reports on voting patterns and practices at the United Nations during the previous year.

Another provision of last year called on the Secretary of State to do likewise, for the State Department to furnish such authorizations. We have provided a joint report which was in large measure prepared by us at the U.S. Mission to the United Nations, at which you served as a public delegate last year, and we believe that these data will be very useful to the Congress and to the public, in fact.

I would like to underscore that I personally, on the basis of my 3 years plus at the United Nations now, welcome and endorse fully the reporting requirements the Congress has made with regard to the behavior of other countries, all countries in the United Nations. I believe very deeply in the importance of the oversight function of Congress with regard to our foreign affairs. I always have believed that, out of government as well as in it.

I also believe very deeply in the importance of the United Nations, and I think that if we face the importance of the United Nations then we will understand the importance to our overall consideration of decisions in foreign affairs of outcomes in the United Nations.

IMPORTANT VALUES AND INSTITUTIONS AT STAKE IN U.N.

I think there are many important values and institutions and interests at stake in the United Nations. It will not do for the United States to shrug off U.N. decisions as though they lacked importance. The fact is that what gets decided in the United Nations is, as I say in my prepared statement and in the report and as you know, often exceedingly important to other countries in the world, especially to small and relatively defenseless countries which must rely on the United Nations for their own protection and for important assistance.

PEACEKEEPING FORCES IN LEBANON

Decisions that are made in the United Nations also are very important as a context for U.S. policy. It limits what we are able to do in the world and how we are able to do it. I would just point to the discussions of the last 3 weeks concerning the organization and deployment of a peacekeeping force for Lebanon, which culminated finally in a veto by the Soviet Union the night before last, as an example of how decisions which are made in the U.N. context influence the options available to U.S. policy.

U.N. ROLE IN PEACEKEEPING IN LEBANON

I might add in that regard, and I do mention that in the report, that the United States has worked over the last months—and I do mean many months, more than a year and a half—inside the United Nations to try to enhance the U.N. role in peacekeeping in Lebanon. I personally have worked to try to increase the number of observers and the scope of their deployment. We have worked for the production of a U.N. peacekeeping force.

I emphasize this because once again in this morning's newspaper I saw an anonymous source quoted in the New York Times as suggesting that the United States does not really seek U.N. peacekeeping forces in Lebanon and would not be comfortable with a U.N. peacekeeping force for Lebanon.

And I would like to underscore that this is a matter about which I have a great deal of personal interest, personal knowledge, personal experience, and I would like to underscore our efforts over the last year and a half to enhance the U.N. role in Lebanon. And I emphasize it because there is so much misinformation and disinformation on this subject.

But that is an example of how decisions which are made in the United Nations affect the whole context in which we must make foreign policy and conduct our foreign policy. I believe very deeply that when the United States is weak and without influence in international arenas, of which the U.N. fora are the most important, when the United States and the other democracies are not influential, then democratic values and the hopes for democracy in the world are weakened.

I believe that the Congress and all of us concerned with policy need to not be indifferent to what transpires in the United Nations, but to care, to take into account the contributions there of nations to the enhancement of democratic views and values in the world, and to join those of us in the administration who work to that end and those outside government who work to that end. There are a good many nongovernmental groups, NGO's, in the United States who also work for that end.

I completed my statement by saying that I believe: "It is not enlightened or generous or responsible for the United States to be or to seem to be indifferent to what transpires in great international fora. It is not generous or responsible to act as though we did not care about decisions in international bodies. It is our duty, I believe, to try in all appropriate ways to strengthen freedom and human rights and promote the values of the U.N. Charter," which is, of course, the reason for our sponsorship and our membership in the United Nations.

Thank you, Senator Kasten.

[The prepared statement of Ambassador Kirkpatrick follows:]

PREPARED STATEMENT

TESTIMONY OF

AMBASSADOR JEANE J. KIRKPATRICK

UNITED STATES PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

BEFORE THE

SEN [illegible]

As always, it is a great pleasure and a privilege for me to testify before this Committee with regard to U.S. participation in the United Nations. Today is a particularly auspicious occasion since it marks the first Congressional inquiry relative to implementation of Section 101(b) of the Continuing Resolution of November 14, 1983, as well as Section 117 of the State Department Authorization Act for Fiscal Years 1984, 1985. The Continuing Resolution requires that the U.S. Permanent Representative to the United Nations furnish to Congress country-by-country reports on voting patterns and practices at the United Nations during the previous year; the State Department Authorization Act calls upon the Secretary of State to furnish annual reports regarding the policies which each member country of the United Nations pursues in international organizations of which the United States is a member.

I want to make clear that I welcome and endorse fully these reporting requirements. Indeed, I firmly believe that, as regularly applicable provisions of law governing the functions of the State Department and the U.S. Permanent Representative to the United Nations, these legislative enactments will provide an important tool for Congress in the fulfillment of its oversight responsibilities concerning the conduct of U. S. foreign relations.

It would be difficult to overstate the importance of close and continuing attention by Congress to events at the United Nations. After all, through their representatives in Congress, the American people contribute over one-and-a-half billion tax dollars annually toward the U.N. budget, and they contribute additional billions annually in various forms to many of the nations who play important roles in the activities of the United Nations. Our financial support of the United Nations and the assistance we provide to other nations symbolize not only our continuung commitment to the principles of the U.N. Charter, but our dedication to world peace and the improvement of the quality of life in nations less fortunate than ours. Congress' role in the decisions governing this formulation of the policies and allocation of these monies is of necessity very large.

It goes without saying that it is of paramount importance that Congressional decisions regarding U.N. funding and financial support to other countries be well-informed judgments, and that they reflect the wishes of an informed electorate. These principles are not peculiar to matters of foreign relations -- they are fundamental to our democratic form of government.

To an extent greater than often realized, what occurs at the United Nations involves central issues of world politics and frequently touches upon vital U.S. national goals and interests. It therefore is obvious that the conduct of other U.N. members with regard to these goals and interests is very important to us. It constitutes a significant dimension of our relations with other countries, to be considered with the utmost seriousness and gravity.

Annual reviews of U.N. voting patterns and practices provide this Committee, as well as the electorate in general, with a reliable, systematic basis for assessing the attitudes, the policies and the decisions of U.N. members on the salient questions of our time that come before the U.N. General Assembly and Security Council for consideration and action. Here we have the hard evidence of what has happened on issues of importance to us. From it, we can make judgments concerning those whose values and views are harmonious with our own, and whose policies are opposed to ours, and those who fall in between. Beyond views, of course, come interests -- often vital interests. So it is important that we take due note of actions which comport with, or are opposed to, what we regard as vital interests.

The U.N. is a complex arena whose dynamics differ significantly from relations in other arenas. Distinctive patterns of international politics have developed in U.N. arenas which often seem to have little relation to our bilateral relations. Often, far too often, only casual, intermittent and inadequate efforts have been made to integrate U.S. policies and relations with other nations inside the U.N. to U.S. policies and relations with those same nations outside the U.N. Yet, U.N. interactions and decisions have important effects on our ability to achieve our goals outside the United Nations. Often, relations in the U.N. fora shape the context and limit the options available to the U.S. in the world.

In examining the voting record of member states in the U.N. it should be borne in mind that relations in the United Nations are only one dimension of our relations with other countries and often are not the most important aspect of these relations. Economic, strategic, moral factors may be and often are more important to U.S. interests, policy and policy-makers than a country's behavior inside the United Nations. However, at the same time, if a given country's relations inside the U.N. are not all important, or even the most important factor in our relations with it, neither can relations inside the United Nations be considered trivial.

If the decisions and policies of the key bodies of the United Nations matter, then the votes of member nations matter. If U.N. decisions make little or no difference to our interests, then the United States should surely devote less money and energy to our U.N. participation.

Votes in the General Assembly and the Security Council provide mandates and guidance to the Secretary General and the Secretariat, and the diverse worldwide operations of its subgroups. U.N. decisions allocate funds, call conferences, authorize programs.

Since the United Nations system has a combined budget of over four billion dollars, and it employs over 50,000 individuals, decisions concerning the use of these worldwide resources are significant indeed.

U.N. voting practice data require analysis to be useful. Merely because a country votes with us on some issues does not necessarily signify friendship or shared objectives. Countries with a low incidence of compatible votes are not necessarily foes. Indeed, on some issues of importance to us, our treaty allies and those with whom we hold strategic and other objectives in common may vote against us. We must not ignore the full weight of the contextual circumstances in which any vote is cast. Nevertheless, with all these caveats in mind, significant patterns of political conduct and attitudes do emerge from these data.

Votes focus world attention

The agendas of the principal U.N. bodies have a unique influence on the perception of global problems because, to an extent not appreciated in the United States, discussions, debates and votes in the United Nations are followed in the world press. Subjects discussed in major U.N. fora come to be widely regarded as important. Because of this capacity to focus attention on some subjects and ignore others, the agendas of major U.N. organizations influence the definition of what is and what is not important in the world; what is a problem, what is a problem worthy of "world" attention. For example, Cuba has worked hard to have Puerto Rico on the agenda of past General Assemblies as a problem of "decolonization," to embarrass the U.S. and to create a problem where none exists. For the reverse reasons, the Soviet Union and her associated states try to keep off the agenda subjects such as the repression in Poland, the Libyan invasion of Chad, the downing of the Korean airliner, the Rangoon bombing.

When, year after year, Security Council resolutions focus on Israeli "practices" as violations of the Fourth Geneva Convention and ignore greater violations of other countries, there is a powerful tendency for many to come to believe that Israel is especially guilty of gross human rights abuses. Progressively, Israel comes to be perceived as a pariah. Continuing focus of U.N. bodies on the Palestinian question has kept Palestinian problems higher on the agenda of world politics than the plight of more numerous refugee populations, and has won more generous financial support than for other refugee populations.

Votes define "world opinion" on major issues

The decisions of the United Nations are widely interpreted as reflecting "world opinion" and are endowed with substantial moral and intellectual force. The cumulative impact of decisions of U.N.

bodies influence opinions all over the world about what is legitimate, what is acceptable, who is lawless and who is repressive, what countries are and are not capable of protecting themselves and their friends in the world body.

Each year large majorities of the General Assembly put on record their disapproval of the occupation of Afghanistan and Kampuchea and their request for withdrawal of all foreign forces. Even though these resolutions do not name the occupying power their meaning is clear and it is understood by everyone. It makes clear that the majority of member states understand what has happened and is happening in those two countries, that they disapprove, and that Soviet influence in the U.N., though indubitably great, is not always large enough to prevent the expression of general disapproval.

U.N. bodies can damage a country's reputation. The determined effort to make Israel a pariah state reflects the conviction of her adversaries that such delegitimization would be damaging. When resolutions are passed by the Security Council that make demands incompatible with a nation's basic interests, they will almost surely be ignored. But refusal to respect a Security Council resolution leaves a country open to the charge that it is an "international outlaw," "not a peaceloving nation" and, therefore, eligible for further sanctions. Thus, Israel, having been requested by Security Council action to withdraw all its troops from Lebanon, is "guilty" of non-compliance, while Syria is "not guilty" because there were never enough votes in the Security Council to demand Syria's withdrawal. The fact of noncompliance becomes yet another ground for censuring Israel in the U.N. regardless of the fact that Israel agreed to a timetable for joint withdrawal of its troops from Lebanon, and actually began a withdrawal which Syria refused even to discuss.

When the Soviet Union is able to protect itself against being criticized by name -- no matter how flagrant its violations of the U.N. Charter -- it establishes itself as skillful, effective, and influential -- a power to be reckoned with in what is regularly called the international community. When its client states and allies are able to escape criticism -- no matter how flagrantly they violate the United Nations Charter -- the Soviets are judged to be influential, useful friends. Soviet success and influence in the United Nations then becomes an additional incentive for sensitivity to Soviet views and for association with the Soviet bloc. Conversely, when the United States and its friends are subjected to harsh and often unfair attack, the U.S. appears to be devoid of influence, and association with it becomes undesirable if not dangerous. U.N. votes affect both the image and the reality of power in the U.N. system and beyond it.

What U.N. votes tell us about the countries who cast them

There is much votes cannot tell us. The votes of a Congressman do not necessarily tell us where and how he stands within his party or within the Congress, nor what he cares most deeply about, nor about his relation with his peers, nor about the views of his constituency or his legislative assistant. A vote does not even tell us to which party a Congressman belongs. A Congressman may argue even that his votes do not accurately reflect his true values and preferences, but, instead, the pressures in an election year of his constituency, his party, the financial pressures on him, and the issues he was forced to vote on. But cumulatively a Congressman's votes tell us in a general way about where he stands on various kinds of issues, what he stands for, and whom he stands with.

Similarly in the United Nations, a country's votes do not tell us many things. Votes may not depend just on the country's objective position and needs, nor its subjective values and identifications, but on what some authoritative person decided was in his own best interest or his country's best interest in a particular place, at a particular time. The cumulative record, however, tells us what a government judges to be in its best interest. When an African government votes with the majority of Africans, or with the majority of the non-aligned government group, for a resolution that is unfairly crictical of the United States for violating the South African arms embargo, for example, that African state is not necessarily expressing its hostility to the U.S.; it may simply believe there will be more unpleasant (personal or official) consequences for voting no than voting yes.

Over time, however, a country's votes reflect its choices about values and priorities.

There are certain interesting parallels between the country-by-country reports on human rights practices under the Foreign Assistance Act of 1961 and the U.N. voting practice reports, as required by last year's legislative enactment. Both reflect an effort by Congress to take account in its consideration of foreign assistance decisions the policies and practices of other countries with regard to the moral and political goals which guide U.S. policy. Both provide data which must be evaluated with sensitivity and understanding. Like the human rights reports, the data on U.N. voting practices the reports provide can be quite valuable in contributing to better informed, more intelligent decisions.

Congress, as always, will be free to decide to grant or withhold. But in reaching its decisions, Congress will have, by virtue of the U.N. voting reports, the assistance of information which may be highly relevant in any given case. The public will similarly have an understandable basis for judgments that are more reliable than generalized impressions.

As I have indicated, these reports are not very different in their purpose than data supplied to Congress in a host of domestic contexts, as part of the legislative process. There is nothing unique in Congress' quest for the enlightenment provided by relevant information. If any country feels that the reports do not faithfully reflect its policies, attitudes and decisions, it is, of course, free to speak out as it sees fit.

Our nation has never been mean or vindictive in its conduct of foreign relations. It has, on the contrary, been generous to a fault, and understanding in the extreme. That has been the American style. I believe it will continue to be so -- though perhaps with greater sensitivity and closer attention to the hard realities of the world in which we live. These reports should be a helpful adjunct in that process.

Some generalizations and conclusions

First, the U.S. weakness in U.N. arenas is of longstanding duration. It dates back to the sixties and apparently is rooted in the transformation of U.N. membership by the influx of many new nations, many of which are not democratic, and the failure of the United States to take part in the developing "party system" inside the United Nations. It also reflects a U.S. habit of acting as though another country's behavior toward our values and interests inside the U.N. were not relevant to their relationship with us.

Second, the position of the U.S. in the U.N. is not nearly as strong as our economic and military strength might suggest. That is another way of saying U.S. strength and resources in the world have not been translated into influence inside the U.N.

Third, rising Soviet influence has accompanied declining U.S. influence inside U.N. fora. This has been achieved by integration of Soviet influence with the major blocs (through their client states), and in the United Nations' permanent bureaucracy, and weak coordination among the personnel and policies of the democracies and pro-democratic forces.

Fourth, the strength of the Soviet Union inside the U.N. is based on the transfer into the U.N. of power relations outside the U.N. Soviet dominance of Eastern Europe is translated into a solid bloc of votes in the U.N. Soviet client states always support Soviet positions and strategies inside the U.N.

Conclusions from the experience of the past three years suggest that it should be possible to enhance U.S. ability to maximize democratic values and the principles of the U.N. Charter, and to protect our interests and reputation in U.N. arenas providing:

(1) The U.S. and its representatives are clear and make clear to others that we take a serious interest in decisions in these arenas and no longer are willing to shrug off U.N. interactions as without importance.

(2) That we integrate regular communication on U.N. affairs into our normal bilateral relations with other countries.

(3) That we take special measures to inform other countries about issues of special concern to us.

(4) That we make clear inside the U.N. that we are prepared to respect our friends' and associates' basic values and interests, but expect that such respect should be mutual.

The foreign policy of the United States, in the U.N. as out of it, should affirm our commitment to strengthening international peace, to promoting democratic values including respect for human rights, to encouraging development and to strengthening institutions that provide for the peaceful resolution of conflict.

When the U.S. is weak and without influence in international arenas, the possibilities of promoting these values in those arenas are diminished. When the U.S. and the other democracies are influential, democratic values and institutions are strengthened as well. It is not enlightened or generous or responsible for the United States to be or seem to be indifferent to what transpires in great international fora. It is not generous or responsible to act as though we did not care about decisions in international bodies. It is our duty to try in all appropriate ways to strengthen freedom and human rights and to promote the values of the U.N. Charter -- the reason for our initial sponsorship of, and present membership in the United Nations.

PEACEKEEPING IN LEBANON

Senator KASTEN. Ambassador Kirkpatrick, yesterday before the subcommittee, Secretary of State Shultz suggested that the outcome of this key vote on the French resolution in the Security Council which would have substituted U.N. forces for the multinational peacekeeping forces would have been different had not the Congress acted and pushed, if you will, the administration to remove the Marines from Lebanon.

Could you give us your view as to the outcome of that vote if, in fact, the question was substituting U.N. troops for Marines or U.N. troops for nothing at all?

Ambassador KIRKPATRICK. I would note that one can never speak with certainty about what would have happened if some other condition, some different condition, had prevailed. My judgment, however, is that the Soviet representatives in the United Nations act almost always, with almost no exceptions, to achieve very short-range political and strategic goals. They use the United Nations regularly to help them achieve short-range political goals.

Now, one of their goals with regard to Lebanon, it is very clear, has been the withdrawal of the MNF and the end to a U.S. presence in the region. They have focused their fire, their rhetorical fire, certainly, on the removal of U.S. forces rather more than on the removal of French forces or Italian or British, which is an interesting fact to note.

Throughout the negotiations over the last weeks, they have made clear the top priority which they gave to using the resolution, any effort to establish a U.N. presence in Lebanon, to move to further reduce any U.S. presence. They tried to use the resolution to secure a total withdrawal of U.S. ships even from the region and commitments to nonintervention in Lebanon in all future cases, no matter when, no matter what, for no matter what reason.

I believe that their desire to bring about the removal of the U.S. forces was the most important lever which we had, bargaining chip you might say, which we had to secure their permission for the establishment of a U.N. force. I think the reason they vetoed is that they were not able to secure total commitment to total withdrawal of U.S. forces, not just from Lebanon, really, but from all around Lebanon, with commitments to no reintervention.

I think that they thought since we had withdrawn they had already achieved the goal of withdrawal of U.S. Marines from Lebanese territory, and that they were free, therefore, to move beyond that to seek withdrawal from the whole region.

It is a long way around of saying that I think I agree with Secretary Shultz that our position was very substantially weaker because there had already been the redeployment of the Marines onto the ships. And for the Soviets this was, as it were, something which we gave them without extracting any kind of quid pro quo.

I think we might have gotten their acquiescence in the resolution had we been able to offer that as a quid pro quo. But having already given it, we were in no position to do so. Certainly it weakened our position.

IMPROVING THE REPORT

Senator KASTEN. Ambassador Kirkpatrick, the subcommittee did not receive the report on voting practices until Tuesday. I have not, therefore, had an opportunity to review it thoroughly, but I believe it is a very good beginning, and in line with some of the comments that you made on the report in your prepared statement, I would like to spend a bit of time going over your suggestions, with some ideas that I have on how the report might be improved, changed or modified.

First of all, perhaps you could highlight the areas where you think the report could be improved.

Second, what would you think of the suggestion that the report be expanded to include narratives on the individual countries detailing their bilateral foreign policy? In other words, go beyond just a vote.

And what sort of effect do you expect that this report will have on recipients of U.S. assistance?

Ambassador KIRKPATRICK. Senator Kasten, there was a lot of discussion about the possibilities of including a narrative description of a country's foreign policy in the report. An effort was made toward the preparation of such narratives in draft form. I think most of us who were concerned with the preparation of the report became convinced along the way of two things:

One, that there are many opportunities which the Congress has to explore the general orientation of a country vis-a-vis the United States in foreign affairs. The Congress has many committees, it has a long process of consideration of foreign assistance, and it does not, presumably, need to go over all aspects of a country's relations with the United States each time it considers one aspect of a country's relationship with the United States.

You have, for example, the human rights report, which provides an overview of practices relevant to human rights. More narrowly conceived, you have the testimony from the Secretary of State and other officials of the administration about particular areas.

And I believe that there is a strong intellectual justification basically for focusing in one report on one aspect of a country's relations vis-a-vis the United States, with the full understanding that that is one aspect of a country's relations, and that the Congress is taking into account in its deliberations all other aspects—economic, strategic, moral, political, and so forth; that this is one dimension and it is appropriate to focus on this one dimension in one report, making clear that everybody understands it is one dimension, not the most important necessarily in all cases, not the least important necessarily in all cases, but one dimension of a country's relations with the United States.

So I think it is not desirable to try to use the U.N. voting practices report as a vehicle for one more overall evaluation of U.S. relations with the country.

I think that this is a first effort, of course, and we learned some things in the course of undertaking this effort. I think that the reporting should be extended to other major U.N. bodies. That is my principal recommendation.

For example, we are now engaged in a large discussion about UNESCO. I think it would be very useful to have a comparable report on major debates, programs, and voting practices in UNESCO. I think that there are other U.N. agencies—well, I think on any U.N. agency to which the United States makes significant contributions, financial contributions, and in which decisions that are important for us are made, for these it makes sense for the Congress to have a report on the United States and other countries' policies and behavior in those agencies.

EFFECT OF THE REPORT

Senator KASTEN. I would like to follow up for a moment. What kind of effect do you expect this report will have on the recipients of U.S. assistance?

Ambassador KIRKPATRICK. May I answer that by referring to a conversation which I had 2 days ago with a representative, a very high official, of another government, who said to me that it was the first time in the memory of anyone in their government—and this was another western democracy, by the way; let me just add that—that it was the first time in the memory of anyone in their government that in planning their policies and positions and major statements in the United Nations the question ever got raised: Are we working with the Americans on this? What does the United States think about this?

The official's point was that the United States has never seemed in his memory to attach any significance of a serious kind to our relations with other countries inside the United Nations, and that we have in the last years, in this administration in fact, taken a number of steps to make clear that we do regard the United Nations as a significant forum, that we do care about decisions made there, and that we care about our relations with countries there.

I believe that this report is an important additional tool to that end. I believe that it can be, and I hope it will be, taken into account by the administration in its consideration of requests, various kinds of policies, including assistance but not only assistance.

I very much hope it will be taken into account, for example, by our ambassadors in the field, and that there will be an occasion at least once a year or so in which the ambassador reviews with the foreign minister of the country to which he is posted the whole state of relations of that country with the United States in U.N. fora.

I hope it will be included in the Secretary of State's dossier when he meets with foreign ministers, where that is relevant; and that just in general we return in a very clear way to the practice that characterized our foreign policy in the early postwar decade, the decade after World War II, namely of caring about what happens in the United Nations and letting everybody in the world know we care about it, enhancing our cooperation with all like-minded governments in the United Nations, and I think this report can be a very useful tool in that.

Senator KASTEN. Yesterday the Secretary of State used almost the same words when I asked him essentially the same question. He said this would be a useful tool in our overall evaluation. And I am pleased with your answer. I think that we in this first report may be making a very important first step.

It is my intention to stick roughly with a 10-minute limit on questions, and we will try to work with one another on the committee and go through one or two rounds of questions.

Senator Inouye.

USE OF THE REPORT

Senator INOUYE. Thank you very much, Mr. Chairman.

Following my Chairman's line of questioning, I am pleased that there has been some clarification as to the use of the voting record, that it will be just one aspect of a recipient country's foreign policy relationship vis-a-vis the United States.

If that is the case, may I respectfully suggest that this provision be amended, because it says here "if the President finds, based on the contents of the report required to be transmitted under this paragraph, is engaged in a consistent pattern," et cetera.

It does not speak of other aspects, and I am afraid that some Members of the Congress may use this—I know it is just semantics, but may use this provision to frustrate your efforts. For example, I find the country of Pakistan, a major beneficiary under our foreign policy programs, quite often voting against the U.S. interests in the United

Nations. But yet, we have other relationships with Pakistan, and someone in the Congress might use this section here and argue that Pakistan should not receive anything because of its pattern of hostility and opposition to the United States in the United Nations.

Or would you prefer just to leave the language as is?

Ambassador KIRKPATRICK. Senator Inouye, I would like to say that, first of all, I think I made very clear in my report to the Congress, which is the introduction to the whole report, that I believe that this is one dimension of our relations with other countries. I say, if I may quote:

> In examining the voting record of U.N. member states, it should be borne in mind that our relations in the United Nations are only one dimension of our relations with other countries and often are not the most important aspect of these relationships. Economic, strategic and moral factors may be and often are more important to our interests and to U.S. policy and policymakers than a country's behavior inside the United Nations.
>
> However, at the same time, that country's relations inside the United Nations are not trivial. If the decisions and policies of the key members of the United Nations matter, then the votes of member nations also matter.

And if they do not matter, then obviously we have no justification for spending so much of the taxpayers' money in that arena or so much effort of all of us.

May I say, Senator, that I take it as axiomatic that no one aspect of a country's record, as it were, vis-a-vis the United States will be treated by the Congress as the sole determinant of its decisions. I take it that whether the Congress is considering U.N. voting behavior or human rights practices or strategic factors or economic trade, for example, balance of trade, that no one of those will wholly preempt the consideration of the Congress.

And I would personally be very happy to see the Congress, if it felt so inclined, to amend all language that relates to all aspects of our dealings with other countries to make clear that it is one aspect of our relations. And I would repeat, that would be true for trade relations, for example, and credit relations and human rights factors and all others.

I think that if there is a single factor that must from time to time be in some circumstances given priority of an almost overriding nature, it is strategic considerations as they relate directly to the U.S. national security. But that is rarely so salient even as to justify such preemption.

I think it is the decision of the Congress how they desire to express this, though, in various pieces of legislation.

GENERAL VOTING BEHAVIOR

Senator INOUYE. As the chairman has indicated, the committee has officially received your report this past Tuesday, but I doubt if any of the other members have seen the report.

Could you advise this committee as to those countries that are receiving benefits now from the United States that are most offensive to the United States as far as voting is concerned in the United Nations?

Ambassador KIRKPATRICK. Senator Inouye, may I say that the report does not deal at all with questions of assistance. There is no aspect of the report that attempts to relate U.N. behavior.

Senator INOUYE. Oh, I know that. But I am certain that you are aware of which countries receive and which countries do not receive.

Ambassador KIRKPATRICK. Yes, Senator. But may I say also that if I were to point to one group in the report—well, we have two kinds of analysis in the report. We have some scores that relate to overall behavior in all General Assembly votes and in all Security Council votes; and then we have a series that deals with the key votes. It is sometimes done with Senators and Congressmen: identify votes of very special, particular interest.

We at the U.S. Mission to the United Nations identify those key votes. Those key votes are not only matters of direct concern to the U.S. national interest, but involve the deepest kinds of moral principles and democratic commitments for our country. For example, nonuse of force, as in Afghanistan. There is a short list of countries who voted to condemn the United States for its action in Grenada and did not vote to condemn the Soviets or to call for the withdrawal of all foreign troops from Afghanistan.

I think if I were going to identify one group of countries whose overall practices at the United Nations are perhaps least consistent with our values and commitments, it would be those countries who simultaneously voted to deplore our action in Grenada and demand immediate withdrawal and declined to do that with regard to Afghanistan.

Senator INOUYE. Which countries are they?

Ambassador KIRKPATRICK. Who are they? Now, some of them are indeed recipients of very large U.S. aid, some are not. Many of them are simply Soviet bloc countries. I circled some here: Algeria, Angola, Benin, Cape Verde, Congo, Ethiopia, Guinea-Bissau.

Now, there are certain ones of those that are recipients of U.S. assistance. There is Mozambique, Uganda, India, Iraq, Bhutan, Syria, Cuba, Nicaragua, and Finland. That would be a very short list, though, if one wanted a sort of shorthand way of identifying such countries.

I have not checked our foreign assistance budgets for those countries.

Senator INOUYE. So this report does not give the Congress a scorecard and say that these are the goodies and these are the baddies, does it?

Ambassador KIRKPATRICK. No; it does not relate those to U.S. assistance, let me put it that way. The report does not deal with any aspect of U.S. assistance. It deals only with U.N. behavior. It gives the Congress some short lists which the Congress may put alongside any other list it sees fit.

EL SALVADOR AND CONDITIONALITY

Senator INOUYE. Madam Ambassador, if I may go to another aspect of your presentation, but not directly involving the United Nations. Yesterday we had the privilege of listening to the Secretary of State. As you know, this bill before us involves the fiscal 1984 supplemental plus fiscal 1985, a total of about $17 billion.

Of that, $785 million is for El Salvador. At yesterday's hearing I believe 95 percent of the time was spent on El Salvador. With 4.5 percent of the total bill, we spent 95 percent of our time.

One aspect of the Kissinger Commission report, I believe, was the cause of major focus, and that is the question of conditionality. I am convinced, Madam Ambassador, that if the administration is insistent upon coming forth with the program without conditions, the reception here will be a very, very weak one.

What are your views on conditionality?

Ambassador KIRKPATRICK. I think I just stated them when I talked about no single factor being of exclusive or preemptive importance as a determinant of U.S. assistance to another country, with the possible exception of strategic concerns that directly involve the U.S. national security.

You will remember that I was involved with the Kissinger Commission rather deeply, and I had long conversations not only with associates of Senator Mathias and Congressman Barnes, but also especially with the late Senator Henry Jackson, who was a very close friend and associate of mine and with whom I had many conversations along the way in setting up this Commission, because of which the President asked me to serve as his representative to the Commission.

I was present in most of the discussions on conditionality, and I am very thoroughly aware of the language which was finally included in the Commission report. That language is drawn directly from the AFL-CIO Executive Committee resolution of the previous year, by which, of course, Lane Kirkland, who is one member of the Commission, felt bound.

Now, that language, interestingly enough, does not call for the kind of extraordinarily sweeping conditionality that the——

"DEATH SQUADS"

Senator INOUYE. Let us limit the conditionality to one aspect. What about the death squads?

Ambassador KIRKPATRICK [continuing]. That the Congress' legislation does.

Senator INOUYE. What about if the Government of El Salvador is unable to or refuses to curb the activities of the death squads?

Ambassador KIRKPATRICK. First of all, Senator, I think that is a very hypothetical question. I do not believe that El Salvador would do such a thing. I think the Government of El Salvador—the problem in El Salvador is that the Government lacks the power to impose its sovereign will on the society.

There is a good deal of anomic violence and organized violence in El Salvador. The only political leaders killed in El Salvador in the last year are political leaders of the conservative parties, the ARENA party and the Autentico group, of which a leader was just killed 10 days ago. Now, I do not believe that happened because any of the Government permitted it to happen. It happened because no one was able to control that violence.

I believe—let me state this as clearly as I can. I have a lot of sympathy for the people of El Salvador and their problems. But I believe that the reason for U.S. assistance to El Salvador, especially military assistance to El Salvador, is not because and should not be because of a desire to help the Salvadorans, but because of a desire to help ourselves, quite literally.

I believe that the strategic relevance of the outcome in El Salvador, the military outcome in El Salvador, is so directly important to U.S. national security that it is one of those rather rare occasions when I think the strategic questions should have a kind of priority.

Senator, I also believe, however, that the Government of El Salvador will work, is working, has worked, and will continue to work in the future very closely, just as closely as we demand, with the U.S. Government to bring about the levels of social control which we desire and they desire and judicial reform.

I think maybe we should send more auxiliary personnel, you know, judicial reformers and so forth, to help them. But I do not believe for purposes of our own national security that we can afford to eliminate military assistance to El Salvador.

D'AUBUISSON FRONT RUNNER IN ELECTION

Senator INOUYE. And finally, if I may ask, it is reported in the media that one of the front-runners or maybe the front-runner in the elections is Roberto D'Aubuisson. Articles have been written suggesting that Mr. D'Aubuisson is involved in some of the death squad activities.

The Washington Times in a recent article suggested that there was a secret meeting which was held by our United Nations Representative and some of my Republican colleagues, at which time you were supposed to have told the group that you had evidence linking Mr. D'Aubuisson with these death squad activities.

I would like to give you an opportunity to comment.

Ambassador KIRKPATRICK. If I may comment, Senator Inouye, I do not hold secret meetings with Republican Senators. That is No. 1.

Two, I do not have any evidence of any kind of any such sort. I talked to that Washington Times reporter afterward. I tried to tell him what in fact I had said. I met with a group of Republican Senators at their request, and we talked about a number of issues of public concern, foreign policy mainly. I from time to time meet with Members of the Congress at their request for this purpose, and I am always available, let me say, to Members of the Congress for this purpose.

In the course of that discussion, I was asked some questions about the U.S. policy toward Central America and El Salvador. I was emphasizing my firm conviction of the vital importance of U.S. support for the Kissinger Commission report, the Jackson plan, as it is now called, and including specifically El Salvador.

I commented on how vital and how dangerous I think the situation is in El Salvador today. That turned to conversation about the elections and there was some talk among some people present about the elections. Some people present expressed some very strong views in favor of one candidate and against another candidate. I tried to make two points, really:

One is that I deeply believe it is not the business of the U.S. Government to try to choose a President for another country. If we believe in democracy, if we have a commitment to democracy, then we simply must believe it is the business of those people through their constitutional processes to make that decision.

Second, I also said that I did not believe it was appropriate for American officials—I mean, I did not think it was wise or prudent—for officials, including some sitting there, to get very committed to one candidate or the other. And I made some comments about what I took to be some disadvantages of each of the candidates if one looked at the negative side of the ledger on the candidates. I said basically I thought our appropriate posture was one of a sort of prudent distance.

With regard to the D'Aubuisson question specifically, I said that I think it is necessary to face the fact that some people in our Government who have a commitment to triumph of democracy in El Salvador and a commitment to U.S. assistance to El Salvador believe that there is real but nondefinitive evidence linking Mr. D'Aubuisson to the so-called death squads. That is what I said.

Now, I think that is what is true. I think it is nondefinitive evidence in that it involves anonymous informers, that sort of thing, and I am not expert on that evidence at all.

U.S. INVOLVEMENT IN THE ELECTION PROCESS

Senator INOUYE. Is it the policy not to be involved in the election process? I ask this because if I recall we did involve ourselves in trying to prevent D'Aubuisson from becoming president of the National Assembly; is that not correct?

Ambassador KIRKPATRICK. I would like to say, Senator Inouye, that I do not have any personal responsibility or any formal role at all with regard to ~~our~~ Central American policy, and I do not doubt that there are aspects of it of which I am not aware. Certainly there are aspects of it on which I am not expert, and I was expressing my own views in that nonsecret luncheon.

My own views are that it is not the business of the U.S. Government to do more than provide election technology, to help countries that are trying to establish democratic institutions, register if they want to have a registration system, or turn out the vote if they want to try to enhance the voter turnout, or provide indelible ink, which I understand we did, if they want to do that.

I have encouraged the maximum consultation by the election commission in El Salvador with the election commissions of Ecuador and some other states with relevant experience, for example.

I can only express my own views, Senator.

Senator INOUYE. Thank you very much.

Thank you, Mr. Chairman.

Senator KASTEN. Senator D'Amato.

UNESCO

Senator D'AMATO. Mr. Chairman, I am truly delighted and pleased to welcome Ambassador Kirkpatrick this morning. I would like to commend her for her outstanding performance at the United Nations in the rather hostile environment which exists concerning U.S. interests in that body.

Ambassador Kirkpatrick has remained steadfast in her dedication to the principles of peace, self-determination, self-government, democracy, and human rights. That is not easy in a body which I believe is probably one of the most morally bankrupt and hypocritical institutions that exist. When we look at the duplicity that the radical member states have practiced on a regular basis, I think the record speaks for itself.

In the face of such adversity, Ambassador Kirkpatrick has faithfully represented the interests of the United States and the American people.

Madam Ambassador, you make me proud to be an American. You have staunchly advocated a well-seasoned approach to international politics. You place the emphasis where it should be placed. You do it in an evenhanded manner.

I would like to quote a passage from a statement made in 1982 by Ambassador Kirkpatrick. At that time she said:

> Instead of being an effective instrument for conflict resolution, the UN serves all too often as an arena in which conflict is polarized, extended and exacerbated, in which differences are made deeper and more difficult to resolve than they would otherwise be.

I believe the Congress and the people of the United States are concerned with the manner in which our country has been taken advantage of and abused in the United Nations. And such targeting by member nations has been a standard that is not fairly applied throughout the world community.

I will note a prime example of the inability of the United Nations to help those in need, which involves UNESCO, the U.N. Educational, Scientific, and Cultural Organization. This is an absolutely scandalous and shocking situation.

I will depart here for a moment and comment that if you want to find the greatest propaganda bureau in the world, one of the most corrupt, one of the most duplicitous, go to the United Nations. The bureaucracy that exists primarily to serve their own personal interests is incredible.

I made an inquiry through the U.N. bureaucracy on behalf of a constituent who was the low bidder on a U.N. contract, yet his bids were being ignored. Estimates indicate this constituent's services would have saved half a million dollars for the United Nations during the life of the contract. I subsequently find out that I have been charged in the U.N. bulletin with attempting to influence the direction of a contract.

The fact that I wanted to know why they were awarding a contract to an agent which would have needlessly cost the UN a half a million dollars a year was just put to the side. Instead, the huge bulletin put out by the U.N., that so-called hall of moral responsibility, accused me of attempting to influence the direction of a contract. It was absolutely preposterous.

I know from personal experience the moral bankruptcy and corruption that occurs in the U.N.

Now let us look at UNESCO. UNESCO's education program for handicapped children in Africa received $12,400. In the same year they spent $439,000 on travel and lodging for the UNESCO president and the executive board. That is incredible. They spent $12,000 for programs for handicapped children in Africa, and almost half a million dollars for lodging and travel by UNESCO's president and executive board.

Ambassador Kirkpatrick, in view of the performance we find in UNESCO and other abuses in U.N. programs, what is your feeling with respect to continuation of U.S. financial support? I know we have served notice with respect to our intent to withdraw from UNESCO. What effect, if any, has that notice had at the United Nations?

IMPACT OF U.S. WITHDRAWAL FROM UNESCO

Ambassador KIRKPATRICK. Well, I think, Senator D'Amato, may I first thank you for your very kind comments for our efforts at the United Nations. We do our best to be as evenhanded and fair in pursuit of this country's maximization of basic values of human rights and democracy as much as possible, and peaceful resolution of disputes, nonuse of force, all those good things.

I think that the first impact of our country's announced decision to withdraw from UNESCO, when we gave notice of our decision to withdraw—and 12 months notice is required under the rules—was to wonder whether this represented the beginning of a new U.S. trend, as it were, whether it was the first of a series of U.S. withdrawals, and that caused a great deal of concern.

I was in Australia and New Zealand and encountered questions to this effect in both countries. I also encountered them among my colleagues in New York very widely. European governments put those questions to us.

We assured them that the UNESCO decision was made after very careful examination of the situation in UNESCO itself, very specifically focused on questions of politicization, of perversion of its appropriate purposes, like the preservation of a free press, for example, and promotion of democratic practices, waste, bureaucratization, and mismanagement.

Those were our concerns. Those were the criteria by which we examined UNESCO. It was in the light of that, and also in the light of our continuing effort over a period of a number of years, both this administration and in the previous administration, to try to correct these terribly serious shortcomings, the failure to be able to do this, working closely, by the way, with the other democratic countries in this effort, in the light of all of that we decided to withdraw.

I explained all of that to our associates. I think that they have understood that we did not intend this as the opening move in a new policy.

Now, I think they have also understood, however, what is true, and that is that the decision does communicate that there are limits in the willingness of the U.S. Government and its people to fund agencies which do deeply pervert the purposes for which they were established, to create obstacles for a free press instead of enhancing a free press, for example, which are politicized in terribly important ways and polarized and unable to perform their functions, and in which bureaucracy just grows and waste occurs beyond belief.

Your comment about the budget reminds me of an ad that ran for 1 full year, I think, in the New Yorker. At least it seemed to me I saw it that long. There was a picture of a Concorde and a very large hotel labeled an Intercontinental Hotel. The caption was: "The next time you are flying to a meeting of the General Assembly or a meeting of UNESCO, do stay in the Intercontinental Hotel in the city where you are meeting."

I thought of that because the level of per diem that our Government officials get can barely put them up in the cheapest hotel in the neighborhood, let me say, and we, of course, do not fly Concorde. But the imagery in that ad suggested something about expectations of waste and high living, if I may say so, which are fairly widespread in the U.N. system.

I think our decision meant to most people who heard it, as it was intended to mean, that the U.S. Government, this administration at least, does not regard it as morally or politically justified to contribute 50 million tax dollars to the support of an organization which is creating obstacles to a free press, which is discriminating terribly against some other democracies, for example Israel, which is denied benefits under UNESCO of various kinds, which is engaging in waste and mismanagement, and is unwilling to work with us even to try to overcome those.

Now, I think once it became fairly clear that the decision was a serious one, two things happened: One is an effort got underway to try to reverse the decision. That is the most important consequence. A great many communications have taken place since then indicating that the U.N. Secretariat, the Secretary General, and the UNESCO management very much hope that the United States will reconsider, and are making various kinds of offers to cooperate with the U.S. Government and the officials of it in reexamining the situation and trying to ameliorate the situation.

Naturally, the U.S. Government, under this administration at least, looks forward with interest to the prospects of genuine improvement in UNESCO. But our decision to withdraw has been made.

Senator D'AMATO. I applaud that decision, Madam Ambassador.

Ambassador KIRKPATRICK. Well, may I say, obviously that no decision is final, in the sense that if the causes of our decision to depart were all transformed, that we are not people with closed minds, obviously.

RECONSIDERATION OF DECISION TO WITHDRAW FROM UNESCO

Senator D'AMATO. Would you recommend a reconsideration of the U.S. decision to withdraw from UNESCO, if there were no indications of meaningful progress in making the program more responsible?

Ambassador KIRKPATRICK. No, absolutely not. I think the decision was taken after very careful review and long effort inside the organization to work inside to change. I think it is a correct decision, and only if there were meaningful improvements of a substantial nature would I support any reversal of the decision.

Senator D'AMATO. Thank you very much.

Thank you, Mr. Chairman.

Senator KASTEN. We are very pleased that we have been joined by Senator Stennis, but at this time we will go to Senator Rudman for questions. Senator Stennis, we are very pleased to have you join us here today.

Senator STENNIS. Thank you, Mr. Chairman.

Senator KASTEN. Senator Rudman.

Senator RUDMAN. Thank you, Mr. Chairman.

I am just curious about something that you said in response to my friend from New York. I envy a lot of things about New York. It is a wonderful place to spend a weekend, but I do not think New Hampshire envies the United Nations. [Laughter.]

U.N. SALARY LEVELS

Senator RUDMAN. Madam Ambassador, what are the reimbursements to U.N. officials for things like travel and per diem and so forth? I am curious about that.

Ambassador KIRKPATRICK. I am not sure that I can give you precise information. I will tell you certain things. One, salary levels of U.N. officials are higher than salary levels of any member governments.

We cooperate, by the way, quite closely with the Soviets in the United Nations on questions of budget and administration. Since we are the largest contributors and they are the next largest contributors, we both have a stake in economy and good management.

My Soviet colleague and I have compared notes several times in the past about salary levels in our governments and we agree that with regard both to the level of salary and pension and fringe benefit levels that U.N. officials are more generously compensated. Per diem rates are a good deal higher. But I am very bad, Senator Rudman, at remembering specific figures, and I do not have them in front of me.

Senator RUDMAN. Well, the reason I ask the question is, I am always struck by the fact that quite often when I am traveling—and as you know, most of us, though not required to do so with our budgets, always travel coach when we are traveling the country, unless we are paying for ourselves and then we can travel first class.

But I have traveled on a number of flights where U.N. officials were going to various conferences, many from very poor third world countries, where we have agonized over how much aid we could give them because their people were starving, and they had no education, and they had enormous problems. And they are on the front of the bus.

Ambassador KIRKPATRICK. Senator Rudman, may I comment that it may not be fair to blame the United Nations for that.

Senator RUDMAN. They were U.N. employees in most cases.

Ambassador KIRKPATRICK. Well, if they were U.N. employees it was a matter for U.N. budget determination. If they are representatives of their own government, of course, then their expense level is under the control of their own governments.

Senator RUDMAN. Well, we are in many cases paying for that also, I might add.

I just really have one question. First, I want to associate myself with the remarks of my colleague from New York regarding your stewardship.

THE INTERNATIONAL ATOMIC ENERGY AGENCY

I just first want to ask one question about the International Atomic Energy Agency (IAEA). You are asking for an increase from $14.8 million to $20.5 million. Incidentally, I also understand there is a supplemental request for $3.7 million, which will bring the $14.8 million up very close to the $20.5 million that you are asking for the coming fiscal year.

Now, I understand the importance of that Agency, but I also recognize that there have been recent reports of increasing politicization of the Agency; the attacks on Israel by that Agency, as by many others of the United Nations.

I just wonder what you think the outlook is. I grant it is a very important agency in terms of nonproliferation. But my question is, Is it getting under control? Not necessarily our control, but is it being rational?

Ambassador KIRKPATRICK. Senator Rudman, thank you very much for your kind remarks.

I would like to say first of all that I do not have any responsibility for the U.S. role in IAEA or even for making recommendations with regard to that budget. I do naturally follow it as a part of the U.N. system and particularly the political aspects of it.

I was deeply concerned 1 year ago and 2 years ago when IAEA became the focus of an effort to bar Israel from participation. That effort was spread through a number of U.N. agencies—the IAEA, the ITU, UNESCO—and ended in the General Assembly of the United Nations itself.

May I emphasize that I believe that the action of the Congress in passing resolutions and laws which made clear that in case Israel was denied participation, its normal right to participation in any U.N. body, the United States would withdraw its own participation from that body and withhold all financial support for that body as long as such condition existed, I believe that that decision by the Congress, that provision by the Congress, has been crucial in fighting back efforts at highly political, discriminatory, unfair, and unjust treatment of Israel in IAEA.

We did fight back such a decision in IAEA. I think it could not have been done without that provision of the Congress and also without the commitment of the administration, of course.

I think, given that commitment of the Congress and the administration, that we have been able to turn that back in IAEA and the level of politicization has, how can I put it, gotten under control again. Now, that being the case, the administration, being also deeply committed to nonproliferation as a goal and maximum safeguards for the nuclear activities of all kinds in the world, decided that it was in our interest to make an even larger commitment to IAEA, working with our friends in IAEA.

I see no reason to question that decision.

UNICEF

Senator RUDMAN. Thank you.

I have just one other question, on the UNICEF request. In 1984 the Congress increased it dramatically over the request. This year the request is again for $27 million, although the appropriation last year was $52 million.

Objectively, Madam Ambassador, do you think the Congress in any way was correct in increasing the funding? Do you think the money was used effectively or do you think it has just been squandered? And if you have any difficulty with the question, I would be pleased to have you answer it for the record. I know I am getting into some specifics.

Ambassador KIRKPATRICK. I would like to say once again that I do not have any responsibility for specific oversight of UNICEF. However, we do have continuous liaison with them, a relationship with them.

I am an admirer of the works of that agency in general. Generally speaking, I think that UNICEF does a very good job in enhancing the health of children in the world. I think its program, for example, for the elimination of infant dehydration, death through diarrhea, which is the largest single cause of infant death in the less developed world, and the nutritional supplement program and the immunization programs and so forth have been very important and very successful. They serve the kinds of humanitarian goals that Americans always have desired to support.

I would have no comment about specific budget levels.

Senator RUDMAN. Thank you very much.

Senator KASTEN. I would like to just say to the ranking member of the Appropriations Committee, Senator Stennis, that we would be pleased to have you participate at any time. Once more, we are pleased and happy to have you here. At this time I would like to ask the Senator if he would like to participate, or should I proceed to the Senator from Pennsylvania, Mr. Specter?

Senator STENNIS. Thank you. Just let me make two brief statements.

CONTRIBUTIONS TO U.N.

I have been wanting to give this subcommittee more attention because of my interest in the program. And also, Madam Ambassador Kirkpatrick, you have my good rating here in Capitol Hill. I am very interested in what you say and do.

I was here when they first started the United Nations, not the very first days of it, but early, in its early setup, and giving money to the other nations, and on into the Korean War. I was one of those that was expecting too much from the United Nations. But after getting into all the things that have happened since then, why, I am overconverted the other way, maybe. I realize now that, after all, in 1 year's time you cannot contribute too much.

But you are outstanding in your work and application. Do not give up. I think you are making headway, and I like the idea of reporting, too. That is quite a help to the busy membership here. So I am renewing my preferences now and I hope to follow your work.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you, Senator.

The Senator from Pennsylvania.

Senator SPECTER. Thank you, Mr. Chairman.

Madam Ambassador, I join in the compliments to you on the job you have done and would note the substantial difference in questioning in this panel from the one around the corner, where Attorney General-designate Meese is being questioned, a proceeding from which I have just come and will soon return. [Laughter.]

CUTTING THE CONTRIBUTION TO THE U.N.

Senator SPECTER. On the subject of financial contribution to the United Nations, the Congress last year voted certain cuts, a matter initiated in the Senate by Senator Kassebaum. What effect, if any, has that had on the U.S. role in the United Nations?

Ambassador KIRKPATRICK. Senator Specter, I would like to express my deep appreciation for your kind remarks and those of Senator Stennis. Your compliments give me needed encouragement in my role, let me say that, and I appreciate your encouragement very deeply.

I think that we have made some progress in the U.N. system in the last 2 years, particularly in some restoration of respect—well, not just respect for the United States, but respect for the principles and purposes of the United Nations itself. I believe that a very important role in that restoration has been played by the closer attention being paid to the U.N. functions by the U.S. Congress and the U.S. Government.

That is the reason that I so much welcome the reporting requirement, for example, and that I welcome all of the attention and examination of the United Nations and U.N. role by the Congress of the United States, including the examination of the budget and including the demand for really serious accounting of the U.N. stewardship of those very large contributions which we make.

Sometimes that demand for accounting takes the form of a proposed slash in the budget. But the effect of it all has been I think to communicate a new seriousness of purpose on the part of the United States toward the United Nations. And since our purpose—our support for the basic purposes for which the United Nations was founded has never wavered, and I do not think anybody doubts the support of the U.S. Congress for that, that increasing attention has a way, I think, of leading to sensitizing the participants in the U.N. system to the relationship of their decisions perhaps to the appropriate purposes of the organization.

CONSTITUTIONAL AUTHORITY OF THE CONGRESS

Senator SPECTER. Ambassador Kirkpatrick, I would like to pursue a question with you which I raised yesterday with Secretary of State Shultz. It is on the matter of policy generally, and I do so because of your position as a policymaker in the Cabinet and also because of your background in international affairs.

It relates to the situation in the Straits of Hormuz today and to the congressional constitutional authority and responsibility for a declaration of war, and whether there might be some utility in having the Congress examine that question in advance to set some parameters for the use of force.

I raised the question with Secretary of State Shultz in the context of what has happened in Lebanon and what has happened during the course of the past 30 years, beginning with the fact of a war being waged in Korea without a congressional declaration, the war in Vietam—and Secretary of State Shultz agreed that both were wars—and the concerns that had arisen in Lebanon as a result of the lack of U.S. commitment to use force there.

The Congress has the constitutional responsibility to declare war, and I think wisely so because the Congress has a much closer feel for what the people will support. We have learned you cannot support military action or war without popular support, and we have the responsibility and opportunity to meet weekly with our constituents at open houses and town meetings and have a very close feel of that pulse.

The U.S. position was substantially undercut in Lebanon by the criticism of the administration's policy. I would defend Speaker O'Neill's right to make that criticism, because that is so basic to our form of government. But as President Reagan has reported to a group of us, when Mr. Rumsfeld was negotiating with the Syrians they said: Well, you are out of breath. That is their way of saying you have no staying power in Lebanon.

Secretary of State Shultz responded to my question on the parts which were reported in the Times and Post today, on the subject that the congressional action, the War Powers Act, had interfered with U.S. policy, and that if we could not use a modicum of force along with diplomacy that we were going to have to cut back on a lot of major U.S. interests around the world.

Now, that is one aspect, as to the weakening of the executive action. The aspect that I was concerned about yesterday and would like to explore with you is the role of the Congress. When I have these open house town meetings, people say to me, why are we at war in Lebanon without a congressional declaration? And I agree with the questioner that Lebanon did constitute a war.

The problem that I am having is, does Congress any longer have a role in declaring war? And I am considering putting in a sense of the Senate resolution that we consider whether or not we should set parameters on the Straits of Hormuz. I asked Secretary Shultz if he thought that would be useful and he said, well, it would always be good to know what the Congress thinks, but there would be problems if the administration's hands were tied.

But where do we go? Should the Congress stay out of war declarations in light of what has occurred or should we try to exercise that responsibility where we do not have an emergency situation? Hormuz has gone on for several weeks. We have time to consider and define. I would be interested in what you think.

THE ROLE OF CONGRESS

Ambassador KIRKPATRICK. Senator Specter, I speak from the perspective of one who has always been a strong proponent of the legislative, the role of the Congress in all aspects of American policymaking. As all my former students can tell you, that has always been a position of mine.

I believe, however, that we live in times when a very concerted effort is made to eliminate all the lines of demarcation between war and peace and between civilian populations and military populations. Now, some of the great strategists would say there have never been clear lines and maybe there never have been clear lines, but certainly, if there ever were, they are blurred today.

I do believe, however, that even in this time of blurred lines that it is important to distinguish between the use of force, shows of force, deployment of force, and the conduct of war. Now, personally, I always believed that there should have been declarations of war in Korea and in Vietnam.

I would remind you, though I am sure you know, that the principal obstacle in the minds of Presidents during those periods to seeking a declaration of war from the Congress was not that they thought the declaration would not be forthcoming, but of a desire in fact to limit the conflict by not calling into effect all of the other requirements, all of the other effects that would exist if a formal declaration of war were made.

I have no doubt, however, that if the United States were to commit substantial numbers of forces to an area in which they would be involved in military combat and conflict, that it is better to have a declaration of war.

I think that nothing like that happened in Lebanon. The deployment of the Marines in Lebanon certainly did not involve a tacit declaration of war or a commitment to war by the United States. And it would have been totally inappropriate, I believe, for anyone to suggest that we were going to war in Lebanon. Clearly we were not.

There is in fact—it is just a fact that the effective conduct of diplomacy very frequently requires the communication of the existence of force, the potential for the use of force. We do not like to do that in this country. We never have liked to do it much. But it may very well be that we are less effective in seeking political and diplomatic solutions to international problems where we make it impossible for us to persuasively communicate a willingness to use force.

I think, for example, of the Lebanon action of President Eisenhower, which the distinguished Lebanese scholar Dr. Charles Malik was reminding me of last week in a conversation. I am sure Senator Stennis knows far more about this than I.

There was the deployment of a large number of U.S. Marines at that time in Lebanon, many times the number that was deployed in this current operation, and with a clear sort of statement that the United States thereby intended to communicate its willingness, its large interest in this area, even to the point of using force if necessary. No shots were fired, no lives were lost, and it was an example of where willingness to commit a large force may have prevented any violence.

I think there are more situations like that in the world than is often believed.

I think that the Congress, just as the Constitution gives the Congress very important control, by way of control over the purse strings above all, over any policies of any administration, so does the Constitution vest in the President the conduct of our foreign affairs subject to the limitations of the Congress and the power of the Commander in Chief, the role of the Commander in Chief.

The President can no more forgo those responsibilities than the Congress should forgo its. I do not believe the Constitution gives the Congress either the right or the obligation to conduct U.S. foreign policy through this sort of participation in all decisions in international affairs, including all decisions which involve the deployment of U.S. military facilities.

CRITERIA FOR THE USE OF MILITARY FORCES

Senator SPECTER. If I may point out more specifically, because the time is short, on Hormuz, the difficulty with what you say, it seems to me that once the President takes a stand in Lebanon then there are many in the Congress who say, well, we would not have gone in there if we had had the determination, but since the President has gone in we will not get off the money. That would be a drastic remedy, to use our power on appropriations, which we are not prepared to do.

But then you have the situation in Hormuz, which is the current issue. You talk about the difference between shows of force and the conduct of war, and I think you can theorize on those differences. But it may well be that a show of force will involve military action which will constitute the conduct of war in Hormuz, and we will be faced in the United States with a situation which will be war, where we have not defined it in advance, and if there is an emergency there is nothing that can be done. There has to be some executive latitude where there is not.

Should we, Ambassador Kirkpatrick, seek in our congressional responsibility to declare war, to define the circumstances for the use of force and what force is acceptable?

Ambassador KIRKPATRICK. Senator Specter, I really regret what I am about to say, but I really believe it would be unconstitutional and I believe if the Congress sought to do it the President would have an obligation to try in some fashion to determine its constitutionality, because I truly believe, I think it would be a terrible impediment to the conduct of U.S. foreign affairs, U.S. foreign policy, and a terrible impediment to the protection of the U.S. national security in this very dangerous world.

But I also think it would be a usurpation of the constitutional powers of the President.

Senator SPECTER. Then how does the Congress respond to the usurpation of the power of Congress when the President wages war in Korea and Vietnam?

Ambassador KIRKPATRICK. Senator Specter, I think it is perfectly clear that the President and the Congress each operate under many constraints. Very often in the international world today, our situation is like that of the person who finds a bandit sticking his gun in his ribs and saying, give me your money or your life.

The choice of the Congress is not a good one. The choice of the President in most of these situations is not a good one. The President operates under terrible constraints, including the necessity of trying to understand the situation and act where that is necessary to prevent the outbreak of violence as well.

The Congress obviously has a duty to keep itself informed fully, especially those of you concerned with foreign affairs, about potential crises and to consult. Obviously, a prudent President will consult with his Congress about these questions.

But the Senate, with its 100 members, and the House of Representatives are incapable, quite frankly, finally of leading this country's foreign policy, no matter who constitutes a majority in either house and no matter who is President of the United States. They cannot in fact discharge that responsibility, and the effort to do so in my opinion would undermine any hope for the responsible conduct of U.S. foreign policy.

Senator SPECTER. Well, then, does that not really write out of the Constitution Congress' responsibility and authority to declare war?

Ambassador KIRKPATRICK. I do not think so, Senator Specter, I really do not. I think that the Congress has an ongoing responsibility, which it exercises in an ongoing manner through formal actions, through consultations with the administration, and through a lot of public discussion as well.

And I just think that there is no way that foreign policy can be conducted with even a modicum of effectiveness if the decision power in every important juncture is to be vested in very large bodies, which the Senate is and the House is. They are just too big to be effective in decisionmaking and responsive to fast-breaking and volatile events which characterize contemporary international affairs. I think that is too bad, but that is the way it is.

Senator SPECTER. Thank you very much, Mr. Chairman. And thank you, Madam Ambassador.

UNESCO

Senator KASTEN. Thank you, Senator.

I want to get back, if I can, to a couple of specifics on the United Nations. First, I want to associate myself, Ambassador Kirkpatrick, with the views of Senator D'Amato on UNESCO. I think it is very important that we do not reverse that decision without dramatic changes, and I think those changes are unlikely to occur and I am hopeful that we will go forward with our decision.

I think it is very possible that our withdrawal from UNESCO could have the same kind of beneficial effects on that agency as our withdrawal from the ILO had on that body. I think it is very important that we not reverse our overall decision.

ASSISTANCE TO ZAIRE AND TOGO

One of the things that I noted is within Africa the support level overall is very, very low, but Zaire turns out to be among our strongest supporters in that continent. How important are the assistance levels proposed by the administration for Zaire?

Ambassador KIRKPATRICK. I would like, if I may, to comment for a moment about Zaire specifically and another aspect of the United Nations that you have not asked me about, but which is highly relevant. Zaire and Togo were members of the Security Council for the past 2 years. They have both now finished their terms. They are good examples, though, of the extent to which votes alone do not display the full role, either helpful role or unhelpful role, of a country.

In their 2 years in the Security Council, both Togo and Zaire were exceedingly supportive of not just the policies of the United States but the policies of the democracies in the fulfillment of the U.N. Charter. For example, such issues as the Libyan invasion of Chad. Togo and Zaire alike worked very hard to secure action by the Security Council on behalf of Chad and to try to help stop the Libyan invasion and occupation of half of that poor African country.

So they not only supported us in their votes generally speaking on important issues—not all of them, but the record is relatively good—but more important than that, they supported more constructive roles, actions, policies of the Security Council, and working with France and the

U.K. and the other democracies to those ends in the corridors, in the politicking that goes on in advance of a U.N. vote. As in the Senate, a very lot, a great deal of politicking goes on in advance of every vote, and the behavior of countries in that politicking in the corridors, as you know, is perhaps sometimes even more important than the final vote.

So I could not underscore too heavily the constructive role of both Zaire and Togo vis-a-vis the United States and the West and the democracies more generally in the U.N. Security Council over the last 2 years.

I believe now, if I leave aside the United Nations, then I would simply note the strategically vital role of Zaire in Africa. It is one of the largest countries in Africa. It has enormous natural resources. Its strategic location and its natural resources have made it a repeated target for Soviet and communist-inspired insurgency efforts, in Shaba Province specifically.

Zaire is very important to us. I think it is also important to know that the Government of Zaire has not only played a positive role in the United Nations, but that it has played a leading role for moderation inside the Organization of African States and in the nonaligned movement. We saw that again and again at the United Nations, but it also takes place outside the United Nations, supporting, for example, the Government of Morocco or the Government of Chad against the Libyan invasion inside the OAU and so forth.

Like a great many African countries, Zaire has suffered terribly from adverse weather conditions, from world economic depression, and the precipitous decline in the prices of their major products—copper, cobalt, industrial diamonds, and so forth. And it has worked very hard and, like most third world countries, it has had real economic problems of very important character.

I think it has worked very hard and closely with the United States and France and the Club du Paris and so forth to try to meet IMF requirements to set its economic house in order and also to modernize its industries and to try to eliminate corruption.

It has also made some significant progress in the human rights field. It has never been a major human rights violator, by the way. The number of political prisoners is less than in any of the east African countries virtually.

As compared, for example, with Zimbabwe, Zaire's record is, inside the United Nations and outside the United Nations, an extraordinarily constructive one. And as compared with what I judge to be strategic interests for the United States, its record inside and outside the United Nations is very important, very central for us.

I think it has a much less effective lobby in the United States, if I may say so.

CENTRAL AMERICAN ASSISTANCE PACKAGE

Senator KASTEN. Ambassador Kirkpatrick, the committee is going to have a separate hearing on the Jackson plan or the Kissinger Commission recommendations, whatever that whole package of Central

American appropriated security assistance and economic assistance is going to be. But I would just briefly ask for you—I know you were a member of the Commission representing the President—if you would give us your view of the legislation and of the Commission's report in terms of the importance of that legislation on our security interests, just very briefly for the record.

Ambassador KIRKPATRICK. First, I believe that the establishment of the Commission was very important and that it was a very constructive initiative by the Congress to pass the resolution which called for the establishment of such a Commission, to which the President responded promptly.

I believe that the members of the Commission were as distinguished and diverse a group of Americans as it was possible to assemble. I know that I have never seen a public commission work as hard or as long as that Commission did, or with such seriousness. I have been a member of a good many public commissions in my life, national party commissions, and so forth, and I have never seen one work as hard at all as that and with as great a seriousness of purpose.

I believe that the arrival at consensus on virtually all aspects of that report by that very diverse, distinguished group of Americans is the most persuasive testimony possible to the profound importance, the vital importance, of this area to the United States.

One of its findings was that Central America is indeed an area of vital importance to U.S. national security. That finding alone is a very important finding and was, of course, like virtually all of the findings in the Commission report, unanimously endorsed.

I think that anyone, any member of the Congress called upon to consider policy for this area, any member of the administration called upon to propose policy for this area, must begin by confronting the vital importance of this area to the U.S. national security.

I believe that the Commission report represents the kind of multidimensional attack on the problems of the area that is required by the problems themselves. The Commission report calls for a response to humanitarian and social problems, to economic development and economic assistance questions, to political structure, democratization questions, as it were, reinforcing the rule of law and democracy, human rights in the region.

Its provisions for security assistance are vitally important, not just to their security, but even more importantly for an American, a North American, to our security.

The Commission's recommendations constitute an important package. They are a whole, I think. I think that the Commission's conclusions that these dimensions of the problem—humanitarian, social, political, economic, and security dimensions of the problem—are so integrally intertwined that it is absolutely necessary to approach them as a whole, in all their complexity, and not simply to focus on one dimension or another—I think that in this sense, by the way, that the Marshall plan analogy is relevant.

Senator Jackson and I, by the way, discussed this a good many times. Nobody thinks that the conditions existing in Central America are like those in Europe after World War II in any detailed way, nor that precisely the same response is appropriate.

But the sense in which the analogy is appropriate is that in Europe after World War II there existed deep social, political, economic, and security problems, and the Government of the United States responded to those problems. It is easy to forget how serious those were, how shaky democracy was in Italy, for example, not to speak of the tradition in Germany.

The U.S. Government responded to those problems with a social, economic, and political security program which addressed all of the problems in their complexity and also encouraged cooperation among the countries of the area in confronting their problems. There is no better example of the successful use of American power in the world, I think, than in that post-World War II response in Europe.

I think that the proposed legislation and the Kissinger Commission work constitute an integrated approach to complex problems, which has the same probability, if carried out as recommended and with skill and humanity, of producing successful results.

I very much hope that the Congress will act positively on it. It is vitally important to the United States. It is impossible really to overestimate the importance of this region to U.S. security and to our capacity to act anyplace else in the world in the next decade.

RESETTLING THE MISKITO INDIANS

Senator KASTEN. I want to shift slightly. One of the problems of providing assistance through international organizations is that the United States sometimes finds itself at cross-purposes, one funding group with another.

For example, the United Nations High Commissioner for Refugees has a program in Honduras whose purpose is to encourage permanent settlement of some of the Miskito Indian refugees from Nicaragua, while at exactly the same time the Intergovernmental Committee for Migration has a program in Nicaragua whose purpose is to encourage these Miskito Indians who have fled to Honduras to return back to Nicaragua. And as you know, the United States provides substantial aid to both organizations.

My guess is that there would be a number of other examples where we in fact are funding two different groups through different agencies, maybe some examples that would be even worse than this one.

Are there not some checks that could be initiated? Is there a way that we could have some kind of a system of cross-referencing on specific projects formed through these international organizations, so that American taxpayer dollars are not being used in a contradictory manner?

Ambassador KIRKPATRICK. Mr. Chairman, I hope that the United States is not funding programs which either encourage Miskito Indians to leave Nicaragua or to go back to Nicaragua.

I think that I should point out, that the ICM program which is based in Nicaragua that involves the assistance to Miskitos who wish to return to Nicaragua, I think that's not a U.N. program. As I understand it, that is another multinational program to which we are a contributor as I understand it.

I am unfamiliar with that program except in the grossest, general level. I believe that what its purpose is is to facilitate the movement of refugee populations, the resettlement of refugees when they want to be resettled someplace. If they want to go from Thailand to settle permanently in the Philippines, let us say, to choose two countries at random, that group might help with that.

And in the case of the Miskitos, as you know, there has been a very large flight, many thousands of Miskitos, from Nicaragua to Honduras seeking refuge in Honduras. The Government of Honduras has been very generous in providing refuge to those Miskito Indians.

The Government of Nicaragua has recently announced an amnesty program which would permit Miskito Indians who have fled Nicaragua to return without penalty. I understand that there are some 12 Miskitos so far have taken advantage of that amnesty program, and the ICM would help them relocate in Nicaragua.

I believe, to address your more general question, that the possibilities not only of duplication and waste, but of actually opposing ourselves, so to speak, by funding programs trying to achieve opposite goals is always a danger in a Government as large as ours has become and as complex as the international bureaucracy has become.

We try to remain alert to that at the United Nations, and I know that the Bureau of International Organizations in the State Department tries to remain alert to it. Maybe we need to be more alert than we are.

U.N. INFORMATION PROGRAMS

Senator KASTEN. There was a recent report by the Heritage Foundation which charged that U.S. taxpayers are in effect helping to fund the KGB propaganda operations through their funding of the U.N. Department of Public Information. The report said that the Department "betrays the original vision of the United Nations and has become a source of propaganda to further anti-Western and anti-free enterprise ideology."

There was a brief article in the Washington Times in which Deputy Ambassador Chuck Lichtenstein said that the report is substantially on target.

What is your assessment? If the report is substantially correct, what can be done to correct this situation?

Ambassador KIRKPATRICK. May I say something, Senator Kasten, that Ambassador Lichtenstein, who has been Deputy U.N. Representative for Special Political Affairs, is resigning his post as of today. This is his last day. I would like to say that he has represented us in the Department on Information and all the information affairs at the United Nations, assisted by Joel Blocker, who is our public affairs counselor at the United Nations.

He has done a marvelously energetic and good job, and I would just like to take this opportunity to recognize that on the record, if I may.

I think it is true, as he has said, confirming the Heritage Foundation report's general characterization of the Department of Information. We have many problems with the program of that Department.

We feel that it often distorts its appropriate functions and that the Soviet influence there is very heavy, and that a good many activities are carried out through that Department which are biased, distorted, and not consistent with the fundamental purposes of the charter. We work on that problem all the time.

Naturally, though, Senator Kasten, the Soviet Union is a member of the United Nations and so are all those countries who are part of the Soviet bloc, and they are entitled to their representation in the U.N. Secretariat. They are very effective in the use of power and the increase of their influence in the U.N. system, and they have been more successful in a number of departments than the democracies, I think, who are not nearly so well coordinated and in some cases not so energetic.

I think that these are problems that those of us in the democracies and who do not believe in politicization of U.N. agencies have to try to continue to work on as efficiently as we can. But I think that the solution to those problems will be found in a more active U.S. posture and posture by other democracies and greater interest of our legislative bodies, including especially the U.S. Congress.

That is another reason why I welcome this hearing today and your concern about these questions.

U.N. RELIEF AND WORKS AGENCY

Senator KASTEN. In last year's hearing you and I discussed the problems of the United Nations Relief and Works Agency (UNRWA), and especially its pro-PLO bias and the fact that some of its camps at that point were being used essentially as military training sites for the PLO. What is the current situation with respect to that Agency?

Ambassador KIRKPATRICK. Senator Kasten, if you would permit me, I would like to preface that remark by saying that I thought this morning as I read the newspaper and I thought about this hearing and I thought you might raise questions about UNRWA, that if anyone required UNRWA to meet the certification requirements that are to be proposed to be imposed on El Salvador, for example, it would have had interesting results.

I think there has been a lot of improvement. The camps were very highly politicized. There is no doubt that there was a condition that prevailed in the Palestinian refugee camps which permitted the PLO fundamentally to govern those camps and to use the social services in the camps as tools for recruiting new recruits, new troops, new soldiers into the PLO ranks continually.

One of the most shocking aspects of that was the withholding of permission to attend high school or to receive a high school diploma from Palestinian youths in the camps who would not report for military training with the PLO, for example.

I think that we have communicated to the leadership, the supervisors, directors of UNRWA, our deep concern about this. The Congress has, of course, passed a resolution requiring that the United States withhold funding of organizations whose principal purpose is to support the PLO or SWAPO or certain other kinds of national liberation movements that use violence.

By the way, Congress' requirement goes into effect only after it is determined that that is the principal purpose of such a program, and on that interpretation of the word "principal," that term, there is a lot of room for looseness in implementation.

We, the U.S. Government, instituted some new and tighter efforts at provision for supervision of the UNRWA administration, and we remain determined that there should not be misuse of those funds and politicization of them for purposes of strengthening the PLO, simply. That is very difficult sometimes to ascertain precisely, though.

UNRWA is interesting, because its whole philosophy of refugee care and help is so different than that of the other U.N. refugee organizations, and the principal one is the United Nations High Commissioner of Refugees (UNHCR). Of course, the UNHCR has as one of its basic principles the desirability of permanent resettlement of refugee populations, and the UNRWA policy is the opposite of that. They seek permanent resettlement only in, I guess, in a national homeland for Palestinians.

The UNHCR encourages refugee populations not to remain in camps, but to remain in camps as briefly as possible, but to enter ordinary civilian populations; and UNRWA does not so encourage permanent residence until there is a final solution of the Palestinian problem.

The UNHCR encourages refugee populations to become economically self-supporting as quickly as possible, and promotes a variety of self-help programs for refugees and promotes employment outside the camps and so forth. UNRWA does not.

The whole philosophy is different in UNRWA camps, and it is this difference in philosophy that causes some people to see in the UNRWA administration a kind of—not an opportunity for perpetuation, but an actual incentive to the enhancement of Palestinian nationalism, which, of course, then is related to the question of politicization, then, of the populations in the camps.

But we are aware of all these problems and all these questions, and we are monitoring them, and we are ready to share that information with Congress regularly.

Senator KASTEN. Thank you.

PREPARED STATEMENT

The subcommittee has received the written statement of Gregory Newell, the Assistant Secretary of State for International Organization Affairs, and that statement will be inserted in the record at this point.

[The prepared statement of Mr. Newell follows:]

Prepared Statement of Gregory J. Newell
ASSISTANT SECRETARY FOR INTERNATIONAL ORGANIZATION AFFAIRS

It is a pleasure to present the President's request for fiscal year 1985 contributions to certain voluntarily funded organizations and programs of the United Nations and the Organization of American States. Before describing this request in detail, I would like to first discuss this Administration's approach toward the United Nations system. The Bureau continues to guide itself by the five priorities introduced almost two years ago. The progress made in pursuit of these priorities has been encouraging.

The first priority - the reassertion of American leadership in international organizations - is to break out of the "damage-limitation" strategy that has come to characterize many of our multilateral policies and move instead toward a more constructive relationship - one that reflects the strong commitment of the President to the UN System. We recognized at the outset that progress would be gradual and difficult since it means turning international organizations away from fruitless ideological and politically inspired debates toward constructive tasks.

A number of actions have been taken to reassert our leadership. First and foremost among these is our determination to speak out on issues that are important to our national interests and that could threaten the future of the UN system if allowed to continue unchecked. Thus we steadfastly uphold the principle of "universality" and in the name of this principle defeated major challenges to Israel's participation in the UN General Assembly, the International Atomic Energy Agency, and in the International

Telecommunication Union. We have also succeeded in turning back measures to involve the UN General Assembly in issues that are none of its business. For example, we blocked efforts by the Soviet Union and others to have the General Assembly discuss the ongoing process of terminating the U.S. Pacific Islands Trusteeship. We turned aside a Malaysian proposal which would have brought into question the fundamental principles underlying the Antarctica Treaty. And our impact is not just transitory. Our success in stopping an effort by Cuba in 1982 to have the General Assembly discuss Puerto Rico in the context of colonialism dissuaded the Cubans from making a similar effort in 1983.

The firm position taken against "politicization" and inflammatory rhetoric has had a sobering effect throughout the UN system and has made member nations more reluctant to support radical proposals and more willing to consider practical solutions to their problems. Now that we have succeeded in attracting the attention of international organizations, our task for the coming year will be to advance constructive proposals which respond in practical ways to legitimate international and Third World problems.

We have made considerable progress in promoting the President's budget policy of zero net program growth and significant absorption of non-discretionary cost increases - our second policy priority. With the support of our allies, we achieved substantial reductions in the real growth of the budgets of nearly all international organizations and have halted the runaway trend of their rising budgets. The UN Educational, Scientific and Cultural Organization (UNESCO) was the glaring exception.

More typical are the examples of restraint. The World

HEALTH ORGANIZATION'S 1984-85 BUDGET REFLECTS A DECREASE IN THE PROGRAM BUDGET OF THREE-TENTHS OF A PERCENT AS COMPARED TO A TWO-AND-A-QUARTER PERCENT INCREASE IN PROGRAM GROWTH IN THE PREVIOUS BIENNIUM. THE BUDGET OF THE FOOD AND AGRICULTURE ORGANIZATION PROJECTS ONLY ONE-HALF-A-PERCENT PROGRAM GROWTH FOR THE 1984-85 BIENNIUM, DOWN FROM AN EIGHT PERCENT GROWTH IN 1982-83. THE INTERNATIONAL LABOR ORGANIZATION'S BUDGET CONTAINS A PROGRAM GROWTH OF LESS THAN TWO PERCENT AS COMPARED WITH A NINE-PERCENT IN THE PREVIOUS BIENNIUM. THE 1984-85 BUDGET FOR THE UNITED NATIONS, APPROVED JUST LAST DECEMBER, PROVIDES FOR LESS THAN ONE-PERCENT NET PROGRAM GROWTH -- HALF WHAT WAS INITIALLY APPROVED FOR THE 1982-83 BIENNIUM.

OUR STRONG STAND ON ZERO NET PROGRAM GROWTH FOR ASSESSED BUDGETS WAS TAKEN NOT ONLY TO BRING ABOUT FISCAL RESTRAINT BUT ALSO TO FORCE INTERNATIONAL ORGANIZATIONS INTO REPROGRAMMING RESOURCES FROM UNPRODUCTIVE ACTIVITIES TO WORTHWHILE PROGRAMS THAT WILL SHOW RESULTS. WE WISH TO ENSURE THAT THE UNITED STATES' CONTRIBUTIONS ARE USED FOR PROGRAMS THAT COINCIDE WITH OUR NATIONAL PRIORITIES AND SATISFY THE REAL NEEDS OF THE INTERNATIONAL COMMUNITY.

FOR OUR THIRD PRIORITY WE SET OURSELVES THE GOAL OF REDUCING THE SIZE OF UNITED STATES DELEGATIONS TO INTERNATIONAL CONFERENCES BY 30 PERCENT. THE FIGURES SHOW THAT THE NUMBER OF DELEGATES WAS REDUCED FROM 2,785 IN FY 1980 TO 1,941 IN 1983 - A 30.31 PERCENT REDUCTION. AT THE SAME TIME, WE PRESSED FOR A REDUCTION IN THE NUMBER AND LENGTH OF INTERNATIONAL CONFERENCES. AS A RESULT OF OUR EFFORT, THE UN INSTRUCTED ITS COMMITTEE ON CONFERENCES TO WORK WITH OFFICERS OF SUBSIDIARY BODIES OF THE UN TO SHORTEN CONFERENCE SESSIONS. IN ADDITION A NUMBER OF INTERNATIONAL ORGANIZATIONS AGREED TO REDUCE THE LENGTH AND NUMBER OF THEIR CONFERENCES. WE WILL, OF COURSE, CONTINUE TO SEEK SAVINGS IN OUR PARTICIPATION IN INTERNATIONAL

CONFERENCES, BUT WHILE DOING SO WE ALSO WANT TO ENSURE THAT THE DELEGATIONS WE ARE SENDING TO THESE CONFERENCES ARE HIGHLY QUALIFIED AND WELL-PREPARED.

JUST BEGINNING TO SHOW RESULTS ARE THE INITIATIVES WE HAVE TAKEN TO ACHIEVE OUR FOURTH PRIORITY - TO INCREASE THE NUMBER OF U.S. NATIONALS IN INTERNATIONAL ORGANIZATIONS, PARTICULARLY IN POLICY-MAKING POSITIONS. FOR EXAMPLE, THE AMERICAN ADMINISTRATOR OF THE UN DEVELOPMENT PROGRAMME WAS REAPPOINTED FOR ANOTHER TERM. AN AMERICAN WAS NAMED DEPUTY COMMISSIONER OF THE UN RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE MIDDLE EAST (UNRWA). ANOTHER WAS APPOINTED DEPUTY EXECUTIVE DIRECTOR OF THE UN ENVIRONMENT PROGRAM. IN UNICEF, WHOSE EXECUTIVE DIRECTOR HAS ALWAYS BEEN AN AMERICAN, A RECENT APPOINTMENT LEAVES TWO OF UNICEF'S REGIONAL BUREAUS UNDER THE DIRECTION OF AMERICANS.

THE RECORD FOR THIS YEAR SHOWS, HOWEVER, THAT THE TOTAL NUMBER OF AMERICANS IN INTERNATIONAL ORGANIZATIONS INCREASED ONLY SLIGHTLY. WE HOPE TO DO MUCH BETTER IN THE COMING YEAR WHEN THE CHANGES WE HAVE MADE IN THE RECRUITMENT AND PLACEMENT OF QUALIFIED AMERICANS HAVE TIME TO TAKE EFFECT. THESE CHANGES ENTAIL THE STRENGTHENING OF INTERAGENCY COORDINATION PROCEDURES FOR RECRUITING AND THE DEVELOPMENT OF NEW TACTICS FOR PLACING OUR CANDIDATES WITH INTERNATIONAL ORGANIZATIONS.

OUR FIFTH AND FINAL PRIORITY - TO INCREASE THE ROLE OF THE PRIVATE SECTOR IN THE PROGRAMS AND ACTIVITIES OF INTERNATIONAL ORGANIZATIONS - HAS TWO COMPONENTS: FIRST, TO PERSUADE INTERNATIONAL ORGANIZATIONS TO RELY MORE ON PRIVATE ENTERPRISE FOR SOLVING DEVELOPMENT PROBLEMS, AND, SECOND, TO PERSUADE THE U.S. PRIVATE SECTOR TO BECOME MORE INVOLVED IN MULTILATERAL ACTIVITIES. WE HAVE SEEN SOME PROGRESS IN BOTH OF THESE AREAS OVER THE PAST YEAR. FOR EXAMPLE, WE WERE ABLE TO BRING TOGETHER THE RESOURCES OF A NUMBER OF U.S. TELECOMMUNICATION

COMPANIES TO TRAIN DEVELOPING COUNTRY OFFICIALS IN THE USE OF AMERICAN TECHNOLOGY. THE U.N. ENVIRONMENT PROGRAM (UNEP) IS CO-SPONSORING WITH INDUSTRY, A PRIVATE SECTOR CONFERENCE TO SHOWCASE ENVIRONMENTAL TECHNOLOGY. U.S. INDUSTRIAL FIRMS, INCLUDING TENNECO, U.S. STEEL, GULF, AND 3-M CORPORATION, HAVE LED THE ORGANIZATION OF THE CONFERENCE. WE HAVE CREATED CLOSER WORKING RELATIONSHIPS BETWEEN THE WORLD HEALTH ORGANIZATION (WHO) AND U.S. PROFESSIONAL HEALTH GROUPS AND THE PHARMACEUTICAL INDUSTRY.

DESPITE THESE EXAMPLES, HOWEVER, WE ARE JUST BEGINNING TO TAKE ADVANTAGE OF THE IMMENSE POTENTIAL AND RELEVANCE OF THE PRIVATE SECTOR TO THE SOLUTION OF GLOBAL AND THIRD WORLD PROBLEMS. IN RECOGNITION OF THIS STILL UNREALIZED POTENTIAL, WE HAVE RECENTLY ESTABLISHED IN THE BUREAU A POSITION FOR A DEPUTY ASSISTANT SECRETARY FOR PRIVATE SECTOR AFFAIRS WHOSE RESPONSIBILITY IT WILL BE TO FIND NEW WAYS IN WHICH WE CAN BRING THE EXPERTISE AND VIGOR OF THE PRIVATE SECTOR TO BEAR ON THE ACTIVITIES AND PROGRAMS OF INTERNATIONAL ORGANIZATIONS.

THE IO&P BUDGET

THE PRESIDENT'S FY 1985 REQUEST OF $241.8 MILLION FOR THE INTERNATIONAL ORGANIZATIONS AND PROGRAMS ACCOUNT IS AT APPROXIMATELY THE SAME LEVEL AS THE FY 1984 REQUEST. IT INCLUDES TWO ADDITIONAL PROGRAMS, FUNDING FOR WHICH IN 1984 HAD BEEN REQUESTED IN OTHER ACCOUNTS. IN RESPONSE TO CONGRESSIONAL PRACTICE, WE HAVE SHIFTED INTO THE IO&P ACCOUNT THE REQUEST FOR THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT ($50 FOR FY 1985). WE ARE ALSO INCLUDING THE REQUEST FOR FUNDING THE UNIDO INDUSTRIAL INVESTMENT PROMOTION SERVICE.

YOU MAY WONDER AT THE AUSTERITY OF THE LEVEL OF FUNDING REQUESTED FOR FY 1985. AS YOU KNOW, THE ADMINISTRATION IS

RESPONSIBLE FOR PRESENTING A COMPREHENSIVE BUDGET TO THE CONGRESS. THE U.S. CONTRIBUTION TO THE ORGANIZATIONS IN THIS ACCOUNT MUST BE CONSIDERED IN RELATION TO ALL OTHER CLAIMS ON THE BUDGET AND TO THE AVAILABLE REVENUES. TRADEOFFS MUST BE MADE AMONG PROGRAMS COMPETING FOR LIMITED RESOURCES.

THIS AUSTERE REQUEST REFLECTS A CAREFUL BALANCE BETWEEN THE PRESIDENT'S GOALS OF BUDGETARY STRINGENCY AND HIS DETERMINATION THAT THE U.S. CONTINUE TO LEAD AND SUPPORT THE ORGANIZATIONS IN THIS ACCOUNT. WE BELIEVE THAT THIS LEVEL IS ADEQUATE TO DEMONSTRATE THE CONTINUED U.S. COMMITMENT TO THESE VOLUNTARILY-FUNDED AGENCIES, TO ASSURE THE UNITED STATES ITS LONG-STANDING LEADERSHIP ROLE, AND TO RESTRAIN PRESSURE FOR INCREASED TECHNICAL ASSISTANCE FUNDED IN THE ASSESSED BUDGETS OF UN AGENCIES.

THE MULTILATERAL AGENCIES TO BE FUNDED BY THIS REQUEST SERVE U.S. FOREIGN POLICY OBJECTIVES IN A NUMBER OF WAYS:

-- THEY PROMOTE ECONOMIC GROWTH IN POORER COUNTRIES, HOPEFULLY FOSTERING SOCIAL AND POLITICAL STABILITY;

-- THEY ADVANCE AMERICAN IDEALS AND SERVE TO ENSURE THAT THE DEVELOPMENT OF IMPORTANT THIRD WORLD NATIONS TAKES PLACE IN THE FRAMEWORK OF THE WESTERN ECONOMIC SYSTEM;

-- THEY DEMONSTRATE AMERICAN SUPPORT FOR HUMANITARIAN IDEALS; AND

-- THEY PROVIDE A WESTERN INFLUENCE IN AREAS OF STRATEGIC IMPORTANCE.

MORE THAN EIGHTY PERCENT OF THE REQUESTED FUNDS ARE FOR THREE MAJOR UN PROGRAMS: THE UN DEVELOPMENT PROGRAMME (UNDP), THE UN CHILDREN'S FUND (UNICEF) AND THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD). THESE THREE PROGRAMS SERVE BASIC HUMAN NEEDS THROUGHOUT THE DEVELOPING WORLD. THAT THE HEADS OF BOTH UNDP AND UNICEF AS WELL AS THE VICE-PRESIDENT

OF IFAD ARE ALL AMERICAN CITIZENS INDICATES THE IMPORTANCE OF U.S. LEADERSHIP IN THESE ORGANIZATIONS AND THEIR RESPONSIVENESS TO OUR INTERESTS.

IN REGARD TO THE AGENCY RECEIVING THE LARGEST CONTRIBUTION, THE U.S. GOVERNMENT HAS LONG SUPPORTED THE UNDP AS THE CENTRAL FUNDING AND COORDINATING MECHANISM FOR MULTILATERAL GRANT TECHNICAL ASSISTANCE. THE PROGRAMME, UTILIZING THE BEST OF THE VAST EXPERTISE OF THE UNITED NATIONS, BRINGS TO BEAR AN IMPORTANT, MULTISECTORAL APPROACH TO DEVELOPMENT PROBLEMS. BY CENTRALIZING PLANNING, ADMINISTRATION AND FIELD COORDINTION, UNDP IS IN A POSITION TO EFFECT THE MOST ECONOMICAL USE OF THE FUNDS PLACED AT ITS DISPOSAL.

WE SHOULD ALSO CITE THE HUMANITARIAN ACHIEVEMENTS OF UNICEF. UNDER THE ABLE LEADERSHIP OF JIM GRANT, UNICEF HAS UNDERTAKEN "A HEALTH REVOLUTION FOR CHILDREN." UNDER THIS PROGRAM, UNICEF IS PROMOTING AND COORDINATING THE ADOPTION THROUGHOUT THE DEVELOPING WORLD OF LOW-COST TECHNIQUES FOR REDUCING CHILD MORTALITY. THE LONG-TERM OBJECTIVE IS TO REDUCE BY HALF THE NUMBER OF CHILDREN DYING -- ESTIMATED AT 40,000 A DAY. THIS PROGRAM HAS DRAWN EXPRESSIONS OF SUPPORT FROM THE PRESIDENT, THE CONGRESS AND AN UNPRECEDENTED NUMBER OF WORLD LEADERS.

IFAD'S LAUDABLE GOAL IS TO HELP POOR FARMERS INCREASE AGRICULTURAL PRODUCTION IN FOOD DEFICIT DEVELOPING COUNTRIES. ESTABLISHED IN 1977 WITH STRONG U.S. SUPPORT, IFAD IS UNIQUE AMONG INTERNATIONAL DEVELOPMENT INSTITUTIONS IN THAT THE OPEC NATIONS AND THE MAJOR WESTERN DONORS PARTICIPATE ON A BASIS OF NEARLY EQUAL CONTRIBUTIONS.

REPRESENTING MORE SPECIALIZED ASSISTANCE ARE THE PROGRAMS OF THE INTERNATIONAL ATOMIC ENGERGY AGENCY (IAEA), THE UN

ENVIRONMENTAL PROGRAM (UNEP), AND THE DEVELOPMENT ASSISTANCE PROGRAM OF THE ORGANIZATION OF AMERICAN STATES (OAS). THE IAEA IS OF COURSE CRITICAL TO U.S. NON-PROLIFERATION INTERESTS. OUR CONTRIBUTION TO THE AGENCY IS VITAL TO STRENGTHEN THE INTERNATIONAL SYSTEM OF SAFEGUARDS ON NUCLEAR MATERIALS AND FACILITIES IN OVER 50 COUNTRIES AND TO MAINTAIN A HEALTHY TECHNICAL ASSISTANCE PROGRAM. TESTIFYING TO THE HIGH PRIORITY ACCORDED TO THE IAEA IS THE ADMINISTRATION'S INTENTION TO SEEK A SUPPLEMENTAL APPROPRIATION IN THE FY 84 BUDGET OF $3.7 MILLION FOR THE IAEA, WHICH WOULD RESTORE THE FULL AMOUNT ORIGINALLY REQUESTED BY THE ADMINISTRATION. OUR SUPPORT FOR THE OAS DEVELOPMENT PROGRAM REFLECTS THE IMPORTANCE WE ATTACH TO PROMOTING SOCIAL STABILITY AND ECONOMIC PROGRESS IN LATIN AMERICA AND THE CARIBBEAN NATIONS.

MR. CHAIRMAN, THE REMAINDER OF MY STATEMENT REVIEWS IN DETAIL THE INDIVIDUAL ITEMS IN THE ACCOUNT.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

THE PRESIDENT IS REQUESTING $120 MILLION AS OUR CONTRIBUTION TO UNDP. THIS ORGANIZATION, WITH ITS EXTENSIVE NETWORK OF 116 DEVELOPING COUNTRY FIELD OFFICES, REMAINS THE MAIN CHANNEL FOR TECHNICAL COOPERATION IN THE UN SYSTEM. ADMINISTERING PROJECTS AMOUNTING TO OVER $750 MILLION A YEAR, UNDP IS RESPONSIBLE FOR PROGRAM DELIVERY IN MORE FIELDS IN MORE DEVELOPING COUNTRIES AND TERRITORIES (152) THAN ANY OTHER DEVELOPMENT ASSISTANCE ORGANIZATION IN THE WORLD. UNDP PROJECTS COVER A BROAD RANGE INCLUDING EXPANSION OF INDUSTRIAL AND COMMERCIAL SECTORS, INCREASING AGRICULTURAL PRODUCTION, AND THE ENHANCEMENT OF AID ABSORPTION CAPACITY THROUGH THE TRAINING OF LOCAL PEOPLE.

SPECIFICALLY THE $120 MILLION IS NEEDED TO:

--MAINTAIN THE COMPREHENSIVE SYSTEM OF UNDP FIELD REPRESENTATIVES. THE UNDP'S RESIDENT REPRESENTATIVES ARE THE PRINCIPAL UN SPOKESMEN IN NEARLY EVERY DEVELOPING COUNTRY. THEY PERFORM FIELD FUNCTIONS FOR NEARLY ALL UN AGENCIES AND THE SECRETARIAT, ACHIEVING ECONOMIES OF SCALE AND IMPROVED EFFICIENCY FOR THE UN SYSTEM AS A WHOLE THROUGH THEIR COORDINATING AND CATALYTIC ACTIVITIES.

--STAVE OFF THE GROWTH OF TECHNICAL ASSISTANCE FUNDED BY THE REGULAR BUDGETS OF UN SPECIALIZED AGENCIES. OWING TO THE WORLDWIDE RECESSION, UNDP FOUND ITSELF WITH RESOURCES PERMITTING PROGRAMMING AT ONLY 55% OF THE LEVEL ORIGINALLY PLANNED. HOWEVER, RECENT ANTICIPATED INCREASES IN CONTRIBUTIONS FROM DONORS, PARTICULARLY THE UNITED STATES, HAVE ENABLED UNDP TO AUTHORIZE PROGRAMMING AT 80% OF PLANNED LEVELS FOR THOSE COUNTRIES CLASSIFIED AS LEAST DEVELOPED. THIS MODEST IMPROVEMENT SHOULD DISCOURAGE EFFORTS TO SEEK COMPENSATING ASSISTANCE THROUGH BUDGETS FUNDED FROM ASSESSMENTS ON MEMBER STATES.

--MAINTAIN TOP LEVEL U.S. MANAGEMENT IN THE ORGANIZATION. WE ARE GRATIFIED WITH THE REAPPOINTMENT OF BRAD MORSE AS UNDP ADMINISTRATOR AFTER HIS TERM EXPIRED IN 1983.

--CONTINUE A COORDINATED APPROACH TO UN SYSTEM DEVELOPMENT VIA ONE CENTRAL AGENCY.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

THE ADMINISTRATION'S FY 1985 BUDGET REQUEST OF FIFTY MILLION DOLLARS REFLECTS A DIFFICULT BALANCE BETWEEN SUPPORT FOR IFAD'S PROGRAMS AND THE REALITY OF BUDGET CONSTRAINTS. THE

REQUESTED CONTRIBUTION WOULD BRING OUR PAYMENT FOR THE FIRST REPLENISHMENT TO $90 MILLION OUT OF A TOTAL ONE HUNDRED EIGHTY MILLION DOLLARS PLEDGED BY THE U.S. AND AUTHORIZED IN 1981 BY CONGRESS.

IFAD'S TWIN PURPOSES ARE TO ENGAGE THE OPEC COUNTRIES WITH WESTERN DONORS IN A SIGNIFICANT DEVELOPMENT EFFORT AND TO FOCUS INTERNATIONAL DEVELOPMENT ASSISTANCE ON INCREASING FOOD PRODUCTION IN THE POORER DEVELOPING COUNTRIES. THE FUND'S ACTIVITIES ARE DIRECTED SPECIFICALLY AT SMALL FARMERS AND THE LANDLESS POOR, THROUGH CONCESSIONAL LOANS AND GRANTS FOR PROJECTS WHICH ARE CONCENTRATED IN FOOD DEFICIT COUNTRIES.

U.S. SUPPORT FOR IFAD REFLECTS THE ADMINISTRATION'S CONTINUING COMMITMENT TO THE AGRICULUTRAL DEVELOPMENT OBJECTIVES ENUNCIATED AT CANCUN, AS WELL AS THE CONCERN THE ADMINISTRATION SHARES WITH THE CONGRESS AND OTHER GROUPS THAT UNITED STATES ECONOMIC ASSISTANCE SUPPORT PROGRAMS THAT DIRECTLY BENEFIT NEEDY PEOPLE IN DEVELOPING COUNTRIES. IFAD SERVES FOUR INTERRELATED U.S. INTERESTS:

1. PROMOTING AGRICULTURAL DEVELOPMENT IN THE POORER COUNTRIES.

2. ENGAGING OPEC IN CONSTRUCTIVE ECONOMIC COOPERATION WITH THE WEST.

3. STIMULATING GREATER OPPORTUNITIES FOR PRIVATE SECTOR INITIATIVE ON THE PART OF SMALL FARMERS.

4. IMPROVING RELATIONS WITH THE DEVELOPING NATIONS AS A GROUP BY SUPPORTING A PRACTICAL INTERNATIONAL EFFORT IN WHICH LDCs PARTICIPATE.

UNITED NATIONS CHILDREN'S FUND (UNICEF)

AN FY 1985 REQUEST OF $27 MILLION FOR UNICEF IS NECESSARY TO RESPOND TO THE NEEDS OF CHILDREN AND MOTHERS IN DEVELOPING COUNTRIES. UNICEF IS UNIQUE IN PROVIDING LONG-TERM HUMANITARIAN DEVELOPMENT ASSISTANCE FOR CHILDREN, MAXIMIZING POPULAR PARTICIPATION AND SELF-HELP EFFORTS AT THE VILLAGE LEVEL. IT DOES THIS IN COOPERATION WITH THE HOST COUNTRY GOVERNMENT AND OFTEN WITH BILATERAL AND OTHER MULTILATERAL ORGANIZATIONS. UNICEF PROVIDES TRAINING AT THE LOCAL LEVEL, SUPPLIES AND EQUIPMENT FOR PROJECTS, AND ADVOCACY FOR POOR CHILDREN ON AN INTERNATIONAL LEVEL.

WE STRONGLY SUPPORT UNICEF'S MAJOR INTERNATIONAL INITIATIVE, TO PROMOTE A HEALTH REVOLUTION FOR CHILDREN. UNDER THIS PROGRAM, UNICEF IS COORDINATING THE EFFORTS OF MULTILATERAL AND BILATERAL DONORS, DEVELOPING COUNTRY GOVERNMENTS, AND LOCAL COMMUNITIES TO PROMOTE THE ADOPTION OF MEDICAL TECHNIQUES DESIGNED TO REDUCE CHILD MORTALITY. THESE TECHNIQUES INVOLVE LOW-COST HEAT-STABLE VACCINES, ORAL REHYDRATION THERAPY FOR DIARRHEA, THE USE OF INFANT GROWTH CHARTS TO DETECT MALNUTRITION, THE PROMOTION OF BREAST FEEDING, AND THE SPACING OF CHILDREN. THIS APPROACH REINFORCES OUR BILATERAL DEVELOPMENTAL EFFORTS.

INTERNATIONAL ATOMIC ENERGY AGENCY (IAEA)

CONCERN OVER THE DANGERS TO WORLD PEACE OF FURTHER PROLIFERATION OF NUCLEAR WEAPONS HAS INTENSIFIED THE FOCUS ON IAEA'S VITAL SAFEGUARDS, WHICH PLAY A CENTRAL ROLE IN THE NON-PROLIFERATION TREATY. THE UNITED STATES CONTINUES TO TAKE STEPS TO STRENGTHEN THE AGENCY'S ROLE IN THE APPLICATION OF INTERNATIONAL SAFEGUARDS TO PREVENT THE DIVERSION OF NUCLEAR MATERIALS FROM PEACEFUL TO MILITARY PURPOSES. THE DEVELOPING

COUNTRIES, OVER TWO-THIRDS OF THE MEMBERSHIP, DO NOT FULLY SHARE THIS EMPHASIS. THEIR PRIMARY INTEREST IS THE IAEA'S TECHNICAL ASSISTANCE PROGRAM. OUR PROPOSED $20.5 MILLION VOLUNTARY CONTRIBUTION IS DESIGNED TO HELP FUND BOTH PROGRAMS, THUS MAINTAINING AN OVERALL BALANCE IN ORDER TO SUSTAIN THE DEVELOPING COUNTRIES' SUPPORT OF THE SAFEGUARDS ACTIVITIES. THE PRESIDENT'S REQUEST FOR A $3.686 MILLION FY 1984 SUPPLEMENTAL APPROPRIATION FOR IAEA ALSO IS REQUIRED TO MAINTAIN THIS OVERALL BALANCE.

OAS DEVELOPMENT ASSISTANCE PROGRAM (OAS)

THE OAS IS A VALUABLE INSTITUTION THROUGH WHICH WE PROMOTE IMPORTANT NATIONAL INTERESTS IN THIS HEMISPHERE: IN PARTICULAR, POLITICAL SOLIDARITY AND COLLABORATION, THE ENHANCEMENT OF HUMAN RIGHTS, AND CONTAINMENT OF CONFLICT THROUGH PEACEKEEPING. ALTHOUGH THE OTHER MEMBER COUNTRIES ARE CONCERNED WITH THE SAME ISSUES, THEY TEND TO BE PREOCCUPIED WITH THEIR OWN ECONOMIC DEVELOPMENT. CONSEQUENTLY THEY TEND TO ASSESS OUR COMMITMENT TO INTER-AMERICAN SOLIDARTIY IN LARGE PART BY THE LEVEL OF OUR SUPPORT FOR OAS ECONOMIC DEVELOPMENT PROGRAMS.

WE BELIEVE THAT THE REQUESTED $15.5 MILLION IS A MEANINGFUL CONTRIBUTION TO LATIN AMERICAN DEVELOPMENT NEEDS AND WILL BE SEEN AS A TESTIMONY TO U.S. LEADERSHIP. THESE MONIES SHOULD ENSURE THAT THE U.S. WILL CONTINUE TO INFLUENCE THE USE OF OAS FUNDS AND PRESERVE OUR LEADERSHIP IN THE DEVELOPMENT FIELD THROUGHOUT THE HEMISPHERE. IT IS WORTHY OF NOTE THAT THE MORE DEVELOPED COUNTRIES IN THE REGION HAVE BEGUN TO ASSUME MORE OF THE DEVELOPMENT BURDEN AND ARE STRENGTHENING THEREBY COOPERATION AMONG THE MEMBER COUNTRIES.

United Nations Environment Program (UNEP)

The United States was an initial supporter of UNEP's creation in 1972 and contributed some 30 percent of its total resources for the 1978-1982 period. Most UNEP programs are devoted to global environmental problems in which the United States has fundamental interests but which by their nature require a multilateral approach. These problems include pollution in rivers and oceans, accumulation of carbon dioxide in the atmosphere, possible depletion of the stratospheric ozone layer, desertification, and deforestation. UNEP is an important mechanism for stimulating and orchestrating action on such problems.

A $3 million U.S. contribution to this program will allow developing countries to take advantage of UNEP's efforts to build environmental safeguards into new development projects and promote rational resource management. In the long run the Untied States will be a prime beneficiary of the support we give UNEP today.

World Meteorological Organization/Voluntary Cooperation Program (WMO/VCP)

The global operation of the world weather watch of the WMO/VCP is of direct benefit to the United States. Before its establishment, adequate weather data had been unavailable from over 80 percent of the earth's surface -- primarily the oceans and the developing countries. Data from these areas are becoming available as a result of the WMO/VCP efforts and are being used to help improve forecasts of short-range precipitation and temperature as well as long-term weather patterns. The information is used by the genral public, civilian industries, and our defense establishment. The data

FROM THIS PROGRAM ARE ALSO USED FOR RESEARCH PURPOSES TO IMPROVE THE OPERATIONAL SYSTEM AND TO HELP PREDICT CLIMATE FLUCTUATIONS.

THE WMO/VCP SUPPORTS THE PARTICIPATION OF DEVELOPING COUNTRIES IN THE PROGRAM BY PROVIDING AND INSTALLING EQUIPMENT AND TRAINING PERSONNEL TO OPERATE IT. THE REQUEST OF $2 MILLION WILL SUSTAIN THIS WORK.

UN CAPITAL DEVELOPMENT FUND (UNCDF)

ESTABLISHED TO PROMOTE SMALL-SCALE LOCAL INDUSTRIES AND PRODUCTION WITHIN DEVELOPING COUNTRIES BY APPLYING THE MOST APPROPRIATE TECHNOLOGY, UNCDF PROVIDES FINANCING FOR THOSE PROJECTS CONSIDERED TOO SMALL FOR EXTERNAL PRIVATE OR MULTILATERAL BANK ATTENTION. UNCDF PROJECTS ARE RELATIVELY SMALL IN ORDER TO ENLIST THE WIDEST LOCAL PARTICIPATION AND MAKE MAXIMUM USE OF LOCAL RESOURCES, GIVING BENEFICIARIES INCREASED MOTIVATION AND EARLY RESULTS. UNCDF WELCOMES THE COOPERATION OF PRIVATE ENTERPRISE IN THE DEVELOPMENT PROCESS AS EXEMPLIFIED BY LIBBY'S INVOLVEMENT WITH A UNCDF-FINANCED SMALL-HOLDER ASPARAGUS PROJECT IN LESOTHO. WE ARE REQUESTING $2.0 MILLION AS THE U.S. CONTRIBUTION TO UNCDF IN FY 1985.

UN EDUCATION AND TRAINING PROGRAM FOR SOUTHERN AFRICA (UNETPSA)

WE ARE REQUESTING $1.0 MILLION FOR THIS PROGRAM, WHICH SUPPORTS THE PEACEFUL TRANSITION OF SOUTHERN AFRICA TO MAJORITY RULE, A MAJOR U.S. INTEREST. SCHOLARSHIPS ARE OFFERED AT SECONDARY AND UNIVERSITY LEVELS TO BLACK STUDENTS DENIED ACCESS TO SUCH EDUCATION IN THEIR HOMELANDS. MANY OF THE GRANTEES STUDY IN THE UNITED STATES. THEIR TRAINING HERE AND IN OTHER WESTERN COUNTRIES SHOULD ENABLE THEM TO OBTAIN FIRST-HAND

IMPRESSIONS OF WESTERN CONCEPTS AND IDEALS IN ACTION -- CONCEPTS WHICH WILL LATER ASSIST THEM TO ASSUME RESPONSIBLE POSITIONS IN GOVERNMENT, BUSINESS, AND EDUCATION.

UN VOLUNTARY FUND FOR THE DECADE FOR WOMEN (VFDFW)

THIS SPECIALIZED FUND SUPPORTS PROJECTS WHICH BENEFIT THE MOST ECONOMICALLY DISADVANTAGED WOMEN IN THE LEAST-DEVELOPED COUNTRIES. THE EMPHASIS IS ON ACTIVITIES WHICH IMPROVE WOMEN'S INCOME GENERATING SKILLS AND THUS THEIR ABILITY TO CONTRIBUTE TO THE WELL-BEING OF THEIR FAMILIES, COMMUNITIES, AND COUNTRIES. U.S. SUPPORT OF THESE ACTIVITIES IDENTIFIED US WITH THE SOCIAL AND ECONOMIC ADVANCEMENT OF WOMEN WORLD-WIDE AND REINFORCES OUR BILATERAL POLICY TO ENCOURAGE THEIR INTEGRATION IN OVERALL DEVELOPMENT.

THE FUND SPONSORS A DIVERSITY OF PROJECTS WHICH INCLUDE COMMUNITY SHOPS, FUEL AND ENERGY DEVELOPMENT TRAINING, BRICK INDUSTRY FOR RURAL WOMEN, AND MARKETING OF HANDCRAFTS. A $500,000 U.S. CONTRIBUTION TO THE FUND IN FY 1985 WILL HELP SUSTAIN AND EXPAND THIS WIDE RANGE OF PROJECTS.

CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES (CITES)

THIS $200,000 REQUEST WILL LARGELY COVER THE UNITED STATES TARGETED PORTION OF THE CITES SECRETARIAT'S 84-85 BIENNIAL BUDGET. THIS CONTRIBUTION WILL SUPPORT INTERNATIONAL WILDLIFE CONSERVATION MEASURES. THE CONVENTION ON INTERNATIONAL TRADE IN ENDANGERED SPECIES IS THE PREEMINENT WILDLIFE CONSERVATION TREATY. IT HAS ESTABLISHED MACHINERY FOR PROTECTING ENDANGERED SPECIES OF FLORA AND FAUNA, AGAINST OVER-EXPLOITATION THROUGH INTERNATIONAL TRADE. THE UNITED STATES PLAYED A LEADING ROLE IN THE CREATION OF CITES.

UNIDO INDUSTRIAL INVESTMENT PROMOTION SERVICE

THE INVESTMENT PROMOTION SERVICE OF UNIDO WAS FOUNDED IN 1978 TO TRAIN OFFICIALS FROM DEVELOPING COUNTRIES IN ATTRACTING PRIVATE INVESTMENT CAPITAL FOR INDUSTRIAL FACILITIES IN THEIR HOME COUNTRIES. THE SERVICE SERVES U.S. INTERESTS IN SEVERAL WAYS. IT PROMOTES THE USE OF PRIVATE INVESTMENT CAPITAL IN THE PROCESS OF INDUSTRIAL DEVELOPMENT. IT PROVIDES POTENTIAL U.S. INVESTORS WITH A SELECTION OF OPPORTUNITIES IN THE DEVELOPING COUNTRIES. FINALLY IT STIMULATES THE PRIVATE SECTOR IN DEVELOPING COUNTRIES.

THE FIRST SUCH INVESTMENT PROMOTION SERVICE OFFICE WAS IN NEW YORK. THE NEW YORK OFFICE IS THE ONLY ONE OF SEVEN OFFICES NOT FULLY FUNDED BY THE HOST GOVERNMENT. OUR REQUEST FOR $100,000 FOR FY 1985 IS AT THE SAME LEVEL AS IN FY 1984. ADDITIONAL SOURCES OF FUNDING FOR THE NEW YORK OFFICE INCLUDE THE UNDP, UNIDO, THE WORLD BANK AND RECIPIENT COUNTRIES.

IN SUMMARY, MR. CHAIRMAN, WE BELIEVE THIS REQUEST FOR THE IO & P ACCOUNT TAKES INTO CONSIDERATION THE NEED FOR BUDGETARY STRINGENCY YET PROTECTS OUR POLITICAL, ECONOMIC, AND SECURITY INTERESTS. WE BELIEVE CONTINUED U.S. SUPPORT FOR THE PROGRAMS OF THE ACCOUNT IS VITAL TO THE LEADERSHIP ROLE OUR NATION SHOULD PLAY IN THE MULTILATERAL AND INTERNATIONAL ARENAS. WE HOPE THE CONGRESS AND YOUR COMMITTEE AGREE AND WILL SUPPORT THE FULL REQUEST.

SUBMITTED QUESTIONS

Senator KASTEN. There may be some additional questions from members of the committee, and we will submit those questions to you in writing, and hopefully you can get back to us as quickly as possible.

[The following questions were not asked at the hearing but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

Senator Kasten: We do seem to go around and around on certain voluntary contributions to the United Nations. There are certain political, Congressional realities that have to be dealt with, and it does not help when the Administration sends up unrealistic budget requests. You and I have spoken about this before. It is unrealistic to assume that the UNDP will not be funded at a higher level than the $120 million requested for FY 1985. It is also unrealistic to assume that Congress will accept $27 million as the level for UNICEF. This also holds true for a higher figure for UNEP. Unfortunately, as you know, because of budget constraints, we must take these funds from some other account, and often it is from an account that the Administration does not want to see cut. How can we get this message across to the Administration?

Mr. Newell: The Administration's International Organizations and Programs account request level reflects our effort to strike a balance between the need for budgetary restraint in the face of rising deficits and advancement of our interests in the multilateral fora of the UN Development Program (UNDP), the UN Children's Fund (UNICEF), and the UN Environment Program (UNEP) which you specifically address.

We truly see our request levels for these programs as realistic. We fully recognize, however, that Congress has, and may again, reorder our priorities through the appropriations process. We acknowledge this Congressional prerogative but do not feel we should abandon the Administration's request levels.

THE EFFECT OF A CONTRIBUTION CUT ON LEAST DEVELOPED COUNTRIES

Senator Kasten: I see from the justification materials that the Administrator for the UNDP allowed the least developed countries to increase their contributions to UNDP to 80 percent of planned levels because of the increased levels contributed by the U.S. in FY 1984. If we cut our contribution by $40 million in FY 1985, won't that send the wrong signal? I would think we would be encouraged at the increased levels from the LDCs and would want to encourage that by keeping our contribution at a stable level.

Mr. Newell: The increase for 1984 in contributions from the U.S. and other countries to UNDP was the stated reason for the decision by the Administrator to permit the least developed countries to expand their programming to 80 percent of the originally-planned levels of expenditures. We applaud this decision and support the priority accorded to aid to the least developed nations. The Administration has sought to maintain a stable level of support for the Programme which is reflected in an average U.S. share of the total annual contributions from 1976 through 1984 of 19.75 percent.

As to "signals," we seek by our support to confirm our confidence in UNDP and our interest in its central role within the UN system. At the same time, we have an obligation to manage budget requests in a manner consistent with fiscal responsibility and economic prudence.

FAO WORLD FOOD PROGRAM

Senator Kasten: Can you tell me why the administration wants to pull out of the FAO World Food Program? This is the second year there has been no request for that program.

Mr. Newell: The U.S. has no intention to pull out of the World Food Program (WFP). The U.S. continues to be the major donor to WFP, with its current contribution to the 1983-84 biennium totaling $250 million. Ninety-eight percent of U.S. contributions to WFP are made in terms of commodities and money to finance fifty percent or more of shipping which, by law, must be in the U.S. bottoms. The U.S. additional cash contribution under the IO & P account has been made to help offset the impact on WFP cash resources resulting from the fact that we do not cover all shipping costs for U.S. donated commodities.

During the last few years, WFP cash availabilities from other donors, along with WFP miscellaneous earnings, have resulted in a relatively favorable cash position. Thus, the reduced need for U.S. cash has determined our decision not to request a cash contribution under the account.

FUNDING FOR INTERNATIONAL ATOMIC ENERGY AGENCY

Senator Kasten: The Administration is requesting a supplemental request of $3,686,000 for FY 1984 for the International Atomic Energy Agency and $20,500,000 for FY 1985. I understand that there was an attempt by Iraq during the IAEA General Conference in October to challenge Israel's credentials. I also understand that this resolution was defeated. This is good news, and I hope shows that the IAEA understands that Congress and the Administration will not tolerate blatant politicization of that agency. However, this is still quite an increase over the $14,814,000 appropriated for FY 1984. Can you tell us why such a large increase?

Assistant Secretary Newell: At the last International Atomic Energy Agency (IAEA) General Conference, it was Iran which formally challenged Israeli credentials. As a result of a motion blocking this challenge, however, which prevailed by a vote of 52 (U.S.) to 24 with 7 abstentions, it became evident that a substantial majority of IAEA members apparently are no longer prepared to accept such radical politicization in the IAEA. This is a very welcome development, although we must continue to work hard to persuade other Member States of the overriding importance of maintaining a strong and viable IAEA, which plays a key role in the global nuclear non-proliferation regime. Because of the vital role played by the IAEA in this area, we have sought consistently to maintain a reasonable balance between its safeguards and non-safeguards activities, such as the technical assistance program, which is of primary importance to over two-thirds of the membership. Deep cuts in our voluntary contributions, such as those imposed by the last Continuing Resolution for FY 1984, weaken our special program of support for IAEA safeguards, which is of the highest priority for the U.S., and imply that the U.S. is no longer willing to support the IAEA technical assistance program to the same degree we have in the past. This diminishes our ability to influence the direction of the IAEA and protect the interest of our friends, such as Israel. We are seeking the supplemental amount of $3,686,000 for FY 1984 (which would restore the full amount of the Administration's original FY 84 request of $18,500,000) and the $20,500,000 for FY 1985 in order to maintain a proper balance in these important IAEA programs and to continue implementation of the Administration's policy of strengthening IAEA safeguards. We believe these funds are needed and, accordingly, that the requests are fully justified.

ISRAELI CREDENTIALS

Senator Kasten: Also on the IAEA, I am concerned about some of those countries that voted against acceptance of the Israeli credentials -- Pakistan and Tunisia. I understand that in the past some countries have voted one way and then after the vote in the U.N. gave some indication of why. However, considering the amount of foreign aid we give these two countries, it is of some concern to me. Could you comment on this vote?

Assistant Secretary Newell: At the October 1983 General Conference of the IAEA, there was a show of hands and not a recorded roll-call vote on the motion blocking the Iranian challenge to Israeli credentials. Accordingly, we cannot be certain how specific countries voted. We would not be surprised, however, if many countries with large Moslem populations were among the 24 members that supported the Iranian challenge. It is regrettable that these countries do not take full account of the damage that can be inflicted upon the organization as a result of this sort of extraneous politicization. Fortunately, however, a substantial majority of members did recognize the seriousness of the situation and dealt a resounding defeat to the Iranian challenge.

ACTIONS TO RESTRAIN UN TECHNICAL ASSISTANCE

Senator Kasten: The Congress has expressed concern, for more than five years, that the Specialized Agencies regular program budget is being utilized to significantly increase technical assistance. As Congress has stated, during this past period, that it considers UNDP to be the technical assistance coordinator of the United Nations system, what action has the Department of State undertaken to limit this growth of technical assistance within the regular assessed budget?

Mr. Newell: The United States has insisted in all fora upon a lead role for the UN Development Program (UNDP) as the provider of technical assistance in the UN system.

As the single largest contributor to UNDP, the United States has provided the organization with the resources sufficient to discourage the Specialized Agencies from seeking to augment technical assistance with their own assessed funds.

We, along with other major donors, have insofar as possible, insisted throughout the UN system that all technical assistance be voluntarily funded and provided through the UNDP. In fact, one of the benefits of our zero program growth budget policy for assessed budgets has been the thwarting of further technical assistance growth.

UN TECHNICAL ASSISTANCE

Senator Kasten: Would the Department of State provide a complete list of technical assistance projects, executed by the Specialized Agencies from their own regular budgets, for the years 1983 and projected for 1984? In addition, provide the total funds received by each of these agencies from the United Nations Development Program for these same years for technical assistance work.

Mr. Newell: I provide the following table from the United Nations Development Program Document DP/1983/57 which details United Nations system technical cooperation expenditures for 1982. The 1983 and 1984 project expenditures are not yet available.

TABLE 1

United Nations system technical co-operation expenditures in 1982
(Thousands of US dollars)

Executing agency	Funded by regular budgets	Funded by extrabudgetary sources other than UNDP, UNFPA and UNDP-administered funds	Funded by UNFPA	Funded by UNDP-administered funds	Funded by UNDP central resources a/
United Nations	6,686	12,498	24,747b/	2,149	85,100
UNIDO	3,121	16,952	(1)	3,256	67,600
UNCTAD	261	1,289	-	30	14,500
UNCTC	-	868	-	87	-
ECA	1,412	2,504	2,574	134	8,700
ECE	-	36c/	12	-	800
ECLA	524	3,233	2,099	-	1,800
ECWA	672	247	248	368	400
ESCAP	850	6,707	983	622	4,900
UNHCR	-	-	-	19	-
UNCHS	509	3,219	-	108	12,700
ILO	5,224	39,123	6,175	997	51,100
FAO	17,326	113,763	1,865	2,087	141,100
UNESCO	5,245d/	52,954	4,727	1,438	44,500
WHO	141,567e/	96,348e/	10,849	651	20,000
ICAO	-	22,977	-	220	35,300
World Bank and IDAf/		-	-	2,007	39,200
WMO	300	9,801	-	182	11,900
IAEA	13,451	5,727	-	199	4,300
IMO	-	3,633g/	-	24	6,800
ITU	128	5,684	-	334	25,100
UNDP	-	-	-	27,666g/	51,900h/
UPU	554	413	-	5	2,000
WIPO	764	912	-	-	700
WTO	-	5	-	-	800
ITC	-	11,347	-	3	-
UNICEF	-	-	3,154	2,394	-
UNFPA	-	-	15,413	6	-
WFP	-	-	-	12	-
Governments	-	-	23,391	16,036	25,200i/
Non-governmental Organizations (NGOs)	-	-	9,491	395	-
AsDB	-	-	-	-	4,100
AFESD	-	-	-	-	200
Total	198,594	410,240	113,727	61,428	660,600

ACC programme classification categories	Funded by regular budgets	Funded by extrabudgetary sources other than UNDP, UNFPA and UNDP-administered funds	Funded by UNFPA	Funded by UNDP-administered funds	Funded by UNDP central resources a/
01 Political affairs	-	4,837	-	-	300
02 General development issues, etc.	8,557	24,642	-	2,336	84,600
03 Natural resources	8,084	33,279	-	18,904	79,900
04 Agriculture, forestry and fisheries	14,092	77,217	-	8,953	159,100
05 Industry	4,812	20,842	-	2,970	78,500
06 Transport and communications	1,367	35,732	-	5,726	86,400
07 International trade	502	17,216	-	193	14,700
08 Population	-	1,375	113,727	-	2,700
09 Human settlements	668	3,416	-	1,339	11,700
10 Health	145,024	99,336	-	6,399	29,300
11 Education	1,715	18,344	-	3,480	35,600
12 Employment	3,866	27,795	-	1,581	38,200
13 Humanitarian aid and relief	107	-	-	-	1,800
14 Social conditions	2,163	2,550	-	1,860	5,700
15 Culture	1,338	22,915	-	-	5,700
16 Science and technol.	6,299	20,708	-	7,687	26,400
17 Unspecified	-	36c/	-	-	-
Total	198,594	410,240	113,727	61,428	660,600

a/ Provisional data covering indicative planning figures (IPFs), Special Programme Resources, Special Measures Fund for Least Developed Countries, Special Industrial Services and costsharing.

b/ Including expenditures by the United Nations Office for Financial Services.

c/ See footnote i/, table A.1.

d/ See footnote b/, table A.2.

e/ Including support costs.

f/ Excluding $730,726 million financed by World Bank loans, IDA credits and the EEC (see paragraph 26 and table A.8).

g/ Representing expenditures by OPE, UNRFNRE, UNV, UNFSSTD and UNSO.

h/ Representing expenditures by OPE and UNV.

i/ Including Government cash counterpart contributions of $8,600,000 to projects financed by UNDP central resources and executed by various agencies.

ISRAELI GOVERNMENT VIEWS ON UNDP WORK ON THE WEST BANK

Senator Kasten: It is understood that you have just completed a three week visit to four countries in the Middle East, including Israel. What is the view of the Israeli Government with regard to UNDP work with the Palestinian people on the West Bank?

Mr. Newell: After a period of caution and close consultation, the Government of Israel has developed confidence in the leadership and programming which UNDP has brought to the problems of Palestinians on the West Bank and in the Gaza. All project proposals are discussed thoroughly with Israeli authorities who approve them before they are implemented. Israeli authorities have expressed their approval of the approach adopted by UNDP and consequently have insisted that UNDP itself, without resort to intermediaries, carry out activities on behalf of Palestinians.

FUNDS AND PROGRAMS ADMINISTERED BY UNDP

Senator Kasten: What other United Nations funds and programs are administered by the United Nations Development Program? For the record, list the size of these programs and provide a complete list of contributions received by them in the calendar years 1982 and 1983.

Mr. Newell: The other United Nations funds and programs administered by UNDP and their sizes are as follows:

UN Capital Development Fund (UNCDF)
Total cumulative contributions as of 1982 amounted to $181.3 million.

UN Sudano Sahelian Office
As of 1982, it sponsored 129 projects requiring total financing of $701 million.

UN Financing System for Science and Technology for Development (UNFSSTD)
Agreement has yet to be reached on establishment of a financing plan and election of an executive board. Nevertheless, pledges of $39.5 million had been made through 1982.

UN Revolving Fund for Natural Resources Exploration (UNRFNRE)
As of 1982, cumulative resources totalled $46.1 million.

UN Volunteers (UNV)
UNV has deployed some 1,200 volunteers, 500 of whom were serving in 1982.

UNDP Energy Account
As of March 31, 1983, contributions totalled $7.1 million.

UN Trust Fund for Colonial Countries and Peoples (UNTFCCP)
As of December 31, 1982, the Fund's resources were $1.3 million.

Program Assistance to the Palestinian People
Total resources through 1986 are $7.5 million.

UN Special Fund for Land-Locked Developing Countries (UNSFLLDC)
Total contributions since 1977 are $876,100.

Voluntary Fund for the UN Decade for Women (VFDW)
In 1982, 75 projects were approved with a value of $3.8 million.

Contributions pledged were as follows:

	1982	1983
UNCDF	$26,226,515	$16,839,824
UN Trust Fund for Sudano-Sahelian Activities	1,285,622	605,513
UNFSSTD	7,394,985	301,153
UNRFNRE	2,542,866	119,041
UNV Special Voluntary Fund	1,215,974	446,019
UN Interim Fund for Energy and Pre-Investment Surveys	3,437,387	406,602
UNTFCCP	0	0
Program Assistance to the Palestinian People*	0	0
UNSFLLDC	68,442	67,854
VFDW	1,748,000	1,800,000

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*Funded from contributions to UNDP's central resources.

SUPPORT SERVICES PROVIDED BY UNDP OFFICES

Senator Kasten: What support services and other activities do the UNDP offices provide the United Nations system?

Mr. Newell: UNDP estimates that its 116 field offices spend one-third of their total staff time on administrative and programming activities for other elements of the UN system. They often provide advice and administrative support to other members of the UN family. They may also act on behalf of other UN organizations in dealings with their host governments. Among the activities supported by the UNDP and its Resident Representatives are those of the UN High Commissioner for Refugees, the UN Disaster Relief Office and the World Food Program. The UNDP Resident Representative also serves as the representative of the UN Fund for Population Activities. On request, he or she may act on behalf of a Specialized Agency which does not have a local representative. In addition, the Resident Representative will often be called upon to represent the Secretary General of the United Nations. Although these services are usually not reimbursed, they do benefit UNDP by enhancing its ability to coordinate UN development activities. In most countries, the UNDP Resident Representative is also designated by the UN Secretary-General to serve as Resident Coordinator of United Nations Operational Activities for Development.

U.S. NATIONALS IN UNDP

Senator Kasten: What percentage of positions in UNDP are held by U.S. nationals?

Mr. Newell: As of December 31, 1983, United States nationals held 17.7 percent of all positions of UNDP. The breakdown is as follows:

		Total Staff	
	Total	U.S.	U.S. %
Headquarters	615	121	19.67
Field Office	321	37	11.53
Other Funds	162	36	22.22
TOTAL	1,098	194	17.67

U.S. CONTRIBUTIONS TO UNDP

Senator Kasten: A request is made for a chart, listing U.S. contributions to UNDP for the past five years, including a list of UNDP expenditures for contracts, office rental, goods and services, U.S. consultants' fees awarded to American companies and nationals.

Mr. Newell: The following charts illustrate U.S. contributions to UNDP for the years 1978 to 1982, and a breakdown of UNDP expenditures for the same period:

U.S. Contributions to UNDP

Total: $621.0 million (1978-1982)
$761.0 million (1978-1983)

For 1978:	$115 million
For 1979:	$126 million
For 1980:	$126 million
For 1981:	$125.8 million
For 1982:	$128.2 million
For 1983:	$140 million

U.S. Return from UNDP

(a) Outlays in U.S. per Programme Support Budget: e.g., office rental, purchase/lease of supplies and services, etc.	1978:	$55.7 million
	1979:	$63.4 million
	1980:	$72.3 million
	1981:	$83.2 million
	1982:	$91.2 million
	Total:	$365.8 million
(b) Salaries paid to U.S. experts	1978:	$55.7 million
	1979:	$28.0 million
	1980:	$33.3 million
	1981:	$38.0 million
	1982:	$32.4 million
	Total:	$187.4 million

(c) Equipment ordered from U.S. firms	1978:	$18.0 million
	1979:	$32.4 million
	1980:	$39.4 million
	1981:	$39.5 million
	1982:	$33.2 million
	Total:	$162.5 million

(d) Value of Technical Sub-contracts awarded to U.S. firms	1978:	$13.2 million
	1979:	$19.3 million
	1980:	$15.7 million
	1981:	$12.1 million
	1982:	$19.5 million
	Total:	$79.8 million

(e) Reimbursement for fellowships granted in U.S.	1978:	$ 6.5 million
	1979:	$ 7.0 million
(1,629 U.S. fellowship placements in 1982)	1980:	$ 9.4 million
	1981:	$11.2 million
	1982:	$10.2 million
	Total:	$44.3 million

Total of (a), (b), (c), (d) and (e): $839.8 million
(or 135.2% return over five-year period, 1978-1982)

UNDP EXPENDITURES AND PROFESSIONAL STAFF

Senator Kasten: Provide a chart listing UNDP's expenditures on field programs for 1976 to 1983 and a list of number of professional staff serving with UNDP during these same years.

Mr. Newell: The following chart provides UNDP's project expenditures for the years 1976-1982 (1983's are as yet unavailable) as well as the number of professional staff serving with UNDP during those years:

	1976	1977	1978	1979	1980	1981	1982	1983[1]
Project Expenditures (US$ millions)	400.4	337.9	435.6	547.6	677.6	732.0	658.9	560.6
Professional Staff	700	589	611	637	626	670	688	600

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[1] Provisional.

MAJOR DONOR CONTRIBUTIONS TO UNDP

Senator Kasten: Provide a chart illustrating the annual percentage change in voluntary contributions from major donors to UNDP from 1976 to 1983. Also, provide a complete list of these same countries' annual contributions to UNDP from 1976 to 1983.

Mr. Newell: The following chart illustrates the annual percentage change in contributions of the major donors to UNDP and the annual contributions of those countries in the years 1976-1983:

	1976	1977	1978	1979	1980	1981	1982	1983
United States								
Annual contrib.*	100.0	100.0	115.0	126.0	126.0	125.8	128.2	140.0
% change	-	-	15.0	9.6	-	-0.16	1.7	9.2
Netherlands								
Annual contribution	52.3	56.7	61.8	73.5	78.5	63.9	61.5	57.3.
% change	-	8.4	9.0	18.9	6.8	-22.8	-3.9	-6.8
Norway								
Annual contribution	21.3	28.3	34.2	41.1	48.0	48.8	55.1	51.4
% change	-	32.9	20.8	20.2	16.8	1.7	12.9	-7.2
Canada								
Annual contribution	28.8	32.4	34.5	35.1	35.2	37.7	41.8	49.6
% change	-	12.5	6.5	1.7	0.28	7.1	10.9	18.7
Sweden								
Annual contribution	50.7	57.6	61.1	70.3	76.5	62.6	53.1	48.6
% change	-	13.6	6.1	15.1	8.8	-22.2	-17.9	-9.3
Japan								
Annual contribution	20.0	22.0	25.0	35.0	41.0	45.9	51.4	54.8
% change	-	10.0	13.6	40.0	17.1	11.9	12.0	-6.6
West Germany								
Annual contribution	30.5	39.2	49.8	58.8	61.9	47.6	46.4	47.5
% change	-	28.5	27.0	18.1	5.3	-30.0	-2.6	2.4
Denmark								
Annual contribution	39.1	45.3	43.1	62.6	58.6	47.1	39.3	37.5
% change	-	15.9	-5.1	45.2	-7.4	-24.4	-19.8	-4.8
United Kingdom								
Annual contribution	29.2	34.4	47.6	58.1	34.9	34.2	32.6	28.3
% change	-	17.8	38.4	22.1	-66.5	-2.0	-4.9	15.2
France								
Annual contribution	10.0	10.0	14.0	16.0	25.1	23.7	26.1	27.6
% change	-	-	40.0	14.3	56.9	-5.9	10.1	5.7

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*US$ millions.

	1976	1977	1978	1979	1980	1981	1982	1983
Italy								
Annual contribution	4.1	4.2	5.3	5.4	13.7	16.9	23.2	25.7
% change	-	2.4	26.2	1.9	153.7	23.3	37.3	10.8
Switzerland								
Annual contribution	7.9	9.1	10.4	14.2	16.6	15.3	17.7	17.0
% change	-	15.2	14.3	36.3	16.9	-8.5	15.7	-4.1
Belgium								
Annual contribution	9.1	12.8	15.4	16.5	16.2	14.9	13.8	12.2
% change	-	40.7	20.3	7.1	-1.8	-8.7	8.0	13.1

EVALUATION OF UN DEVELOPMENT PROGRAMS

Senator Kasten: The Department of State and the Agency for International Development maintain an evaluation reporting system on the UN development activities in the field. Please provide, for the record, a summary of these reports.

Mr. Newell: The CERP 0008 Review of UN Development Assistance Programs is a biennial reporting requirement. The last summary report was done in May 1982 at which time it was submitted to, and re-printed by, this Committee. The next summary report is due in May of this year and will be submitted to the Committee upon completion.

QUESTIONS SUBMITTED BY SENATOR INOUYE

Senator Inouye: What United Nations programs directly serve United States' national interest?

Mr. Newell: The United Nations serves important U.S goals and interests in a number of ways.

Participation in the UN and its affiliated programs and agencies provides essential mechanisms for the advancement of American foreign policy objectives and gives concrete benefits to both private and public sectors of the country.

In the area of foreign policy the UN accomplishes tasks that neither the United States nor any other nation could accomplish alone or in small coalitions -- such as peaceful settlement of disputes and promotion of universal human rights.

The UN has played an important role in promoting international peace and security by helping to contain regional conflicts through the deployment of observers and peacekeeping forces. In the Middle East, for example, UN peacekeeping forces have been essential to the maintenance of the ceasefire between Israel and Syria since 1974. UN observers have monitored -- and thereby strengthened -- the ceasefires between Israel and its Arab neighbors since 1948. This UN presence serves the U.S. goal of establishing an atmosphere conducive to fruitful negotiations for a lasting peace. The UN peacekeeping force in Cyprus (UNFICYP) supports the U.S. objective of seeking to defuse a potentially explosive situation in the Eastern Mediterranean -- a situation which has brought two valued NATO allies to the brink of war several times in the past generation. In Southern Africa, the United States is pursuing with other Western countries an initiative to achieve a peaceful transition toward Namibian independence within the UN framework. Without a UN role, these and other flashpoints for conflict could lead to great power confrontation.

In addition to serving important American foreign policy objectives, the UN system provides political, economic, social, and other substantive benefits to the U.S. UN agencies produce information, statistics, and documents of immense value to U.S. scholars, government agencies, and private organizations. UN agencies gather information on economic growth, health, migration, military regimes, education, and many other subjects without the impediments that would arise if any single nation tried to collect such data. Like much other work in the UN system, this product is something that otherwise would not be available.

HOUSE APPROPRIATIONS COMMITTEE SURVEY TEAM REPORT

Senator Inouye: During 1983, I understand you met with Mr. Joseph Vignali, Staff Director of a House Appropriations Committee Survey Team, as they were in the midst of conducting a Headquarters and Field Survey of the United Nations development system. Would you care to comment on their findings and, perhaps, the Department of State might provide a copy of their final report to our Committee?

Mr. Newell: From what we know of the report, it speaks quite favorably of the UNDP. We have not yet received an official copy of the report from the House Appropriations Committee. We will ask the House Committee to send a copy to you.

(The survey team report follows:)

SELECTED ORGANIZATIONS AND PROGRAMS OF THE UNITED NATIONS

A REPORT TO
THE COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES

Surveys and Investigations Staff
March 1983

March 23, 1983

MEMORANDUM FOR THE CHAIRMAN

RE: Report on Selected Organizations and Programs of the United Nations

By directive dated September 14, 1981, the Committee requested the Investigative Staff to conduct an investigation of certain aspects of various United Nations organizations and programs.

Because of the broad range and complexity of the assignment, the Committee Staff agreed to the presentation of an interim report before the 1983 appropriations hearings, with the study to be continued thereafter. Accordingly, we are presenting findings on other phases of the review in this report.

Respectfully submitted,

C R Anderson

Robert C. Quigley, Director
Surveys and Investigations Staff
House Appropriations Committee

C. R. Anderson
Chief of the Surveys and
Investigations Staff
House Appropriations Committee

SUMMARY

An Interim Report to the Committee on Appropriations, U.S. House of Representatives, on Selected Organizations and Programs of the United Nations, was submitted in April 1982. The inquiry into certain United Nations activities was continued with emphasis on the United Nations Development Program and the United Nations Children's Fund. This document reports the results of the comprehensive review.

United Nations Development Program (UNDP)

UNDP, headquartered in New York City, is headed by an Administrator, an American, whose term of office expires December 31, 1983. The trend in UNDP has been to decentralize, with greater program responsibility assigned to UNDP Resident Representatives in 114 countries. At headquarters, regional bureaus provide the link between the Administrator and the Resident Representatives in charge of the field activities.

The UNDP is the central funding and coordinating program for technical assistance in the UN system. It operates within a UN system concerned with broader aspects of development activities. Its mandate includes not only its own programs but those of other UN operational activities for development. UNDP, although the primary program, is only one of many voluntary funded UN development activities. Its share of UN system-wide funds for technical assistance has shrunk from 80 percent in 1972 to 50 percent in 1981. It competes for funds with the agencies it is expected to coordinate and support.

In spite of difficulties impacting on UNDP coordination, the overall program of technical assistance to enable developing countries achieve greater self-sufficiency is a highly desirable goal. Views of the program expressed by officials of host countries were highly favorable.

The importance of this program has been noted and strongly supported by the U.S. Congress, the Secretary of State, Bureau of International Organization Affairs (IO), and the United States Representative to the United Nations. This consensus reflects agreement with UNDP goals of promoting self-reliance in developing countries by putting at their disposal the necessary managerial, and scientific and technical skills that are conducive to social and economic development. The emphasis of the program is on training and development rather than charity.

The Investigative Staff visited UNDP offices in nine countries. Based on observations and discussions, the professional staff, in particular the Resident Representatives and/or deputies, appeared knowledgeable and motivated. They generally were accepted by the diplomatic community and host government officials as the focal point of development activities within their countries of assignment. In general, remarks made by some U.S. Embassy officials, other bilateral donor representatives, and officials of host governments, was that the UNDP's influence far exceeded the sum total of UNDP-sponsored and financed activities.

Many UNDP Resident Representatives (94) also serve as coordinators of all UN operational activities for development. The effectiveness of the Resident Representatives in their expanded coordinating roles to a large extent is dependent on the personalities involved and perceptions of their roles and responsibilities. For the most part, Resident Representatives in the countries visited seemed assured with regard to administering the UNDP programs. However, some voiced criticisms that the newly created dual role of the Resident Coordinator had not been clearly defined; that representatives of other UN entities had not fully accepted the concept of the Resident Coordinator; and that the Resident Coordinator had not been granted sufficient authority to successfully implement the additional duties.

Restructuring Resolutions

The increased level of developing nations' concerns and articulations of interests and needs has resulted in the development of programs and strategies such as "Declaration and Program Action on the Establishment of a New International Economic Order" and the "Charter of Economic Rights and Duties of States," neither of which have achieved established goals. In response to their concerns and in an effort to make the UN system better able to deal with economic cooperation and development, the General Assembly adopted two "restructuring" resolutions which included two basic provisions: The establishment of the position of Director-General for Development and International Economic Cooperation to provide leadership; and the concept of resident coordinator to be responsible for the coordination of development activities at the country level. In the usual case, the UNDP Resident Representative is designated as the Resident Coordinator.

The functions and responsibilities of the Director General are broad. His authority is tenuous and dependent on cooperative attitudes of all UN system entities involved in development activities. He has reported that the attainment of greater uniformity and harmonization has been slow and irregular.

UNDP As Coordinator of Technical Assistance

Criticisms expressed at the UNDP Governing Council meeting in June 1982 indicate the problems facing UNDP's coordinating role are complex. The Investigative Staff was informed that representatives of Food and Agriculture Organization (FAO), International Labor Organization (ILO), and World Health Organization (WHO) accused UNDP of failing to adequately consult with them; and of seeking to compete, if not usurp, the functions of these specialized agencies. These would seem to confirm that UNDP has not been accepted as either the focal point or coordinator of multilateral technical assistance. As a matter of fact, much of the UNDP criticism at the field level centered on some of these agencies, especially the Food and Agriculture Organization (FAO), which appeared to be pulling farther away by setting up its own offices away from UNDP. There was also evidence that FAO and some other UN agencies were providing more of their own administrative and support services.

The success of UNDP as the central funding and coordinating organization for technical assistance may, in a large measure, depend on whether the specialized agencies accept the coordination concept, which does not, in fact, contravene their autonomy. There are reports, however, that the specialized agencies are resisting the newly mandated coordination role for UNDP by citing the differing organizational approval processes as the reason for delays in implementing agreements at the country level.

Evaluation Within the UNDP

UNDP considers evaluation an important activity to ensure high standards in technical cooperation. However, there are problems which hinder the performance of objective and meaningful evaluations, not the least being the issues of sovereignty and the provisions codified in the UNDP mandate. One such provision states: "Evaluation carried out within the United Nations system of UNDP-assisted activities will only be made with the agreement of the government concerned."

The "tripartite" reviews (UNDP, host government, and executing agency) are the common UNDP project evaluation method. The reviews seek to measure the project's progress and results, and focus on delays and other problems requiring management decisions. Tripartite reviews are primarily self-evaluations.

According to some UNDP officials, evaluation is the weakest part of the UN's operation and is frequently confused with monitoring. The UNDP monitors projects during the execution phase by on-site visits and progress reports. Visits vary in frequency from project-to-project and country-to-country, and may be made by the Resident Representative or his staff. The Investigative Staff was informed that there is no systematic evaluation of UNDP projects after completion that could provide a measure of their effectiveness. Many UNDP officials recognize that follow-up evaluations consisting of measurements of quality, efficiency, and effectiveness could be valuable.

During the 1982 session of the Governing Council, the Administrator stated his intention to consider establishing an independent evaluation unit to report directly to the Governing Council. This met with general approval of both developed and developing countries. The United States representative supported strengthened evaluation, but questioned whether the unit should report to the Council. The Administrator has since proposed the establishment of a central evaluation unit reporting directly to him. The Administrator's proposal also provides that auditors and the Joint Inspection Unit could be requested to provide independent information directly to the Governing Council.

Funding Trends

At its June 1980 session, the UNDP Governing Council was pressured by developing countries to increase the targeted growth rate above the 14 percent that prevailed during the second program cycle. However, it was decided the 14 percent annual growth rate would be continued for the third cycle (1982-1986), notwithstanding the fact that contributions by governments are falling below the established goal. The widening gap between contributions and targets is causing strains within the UNDP, specialized agencies, and host governments who rely on extra funds to support technical experts.

The estimate of $676 million contributed for 1982 fell $300 million short of the planned target. At the same time, and due to unprecedented exchange rate fluctuations, UNDP's actual resources were reduced by some $90 million, compared with the dollar equivalent at the time of the pledge. These combined short-falls have resulted in about a one-third reduction in the anticipated program resources for 1982 and more drastic reductions in the remaining years of the third cycle.

The funding crisis confronting the UNDP presents major planning problems. The credibility of UNDP rests heavily on a system which targets resources on a five-year cycle and which recipient countries rely upon to make their forward plans. The program is entirely dependent on annual voluntary contributions--90 percent of which come from 17 industrialized nations including the United States.

At the same time, the specialized agencies may be expected to continue serving their own constituencies--FAO-Agriculture;

WHO-Health; UNESCO--Arts and Education, etc.--regardless of UNDP funding problems, because the basis of their funding (assessments vice voluntary contributions) is more dependable. It would not be unreasonable to expect the specialized agencies to increase efforts to acquire funds in order to fill any technical assistance gaps left by the UNDP. Such an eventuality could subvert the concept of a central funding and coordinating mechanism for technical assistance--the raison d'etre of UNDP.

Country Programs and Projects

The Investigative Staff reviewed the country programs of nine countries and visited 61 projects located at 97 sites. Country programs identify the role of UNDP assistance within the overall context of a country's development objectives. Programming is carried out within the framework of an allotment of anticipted resources.

There are a number of problems which impact on the effectiveness of UNDP. Problems include inadequate host government counterpart support, delays in recruiting experts, unrealistic project designs, reluctance to end on-going projects, political influences, and inflation fluctuating exchange rates and funding short falls.

Recruitment of experts required for the different projects sometimes entails a time-consuming worldwide search. Some developing countries are reaching a level of expertise which enables them to provide technical assistance to less developed countries. This further complicates the expert selection process because what might be helpful in one case would be considered unacceptable and wasteful by a more advanced country.

According to UNDP officials, the lack of government counterpart funds is not an uncommon problem of technical assistance. The Investigative Staff was informed that efforts have been made to avoid projects--regardless of merit--if there is evidence that sufficient government support cannot be reasonably expected. To do otherwise would involve a waste of limited UNDP resources.

Continuing high inflation rate in some countries combined with fluctuating exchange rates has made cost estimating extremely difficult and in some cases has resulted in significant cost overruns.

The lack of adequate coordination among the different UN agencies was noted at country level. Whether by intention or not, there were delays in or avoidance of arriving at effective coordinating agreements among UNDP and other UN programs and organizations.

United Nations Children's Fund

UNICEF was created by the UN in 1946 to provide emergency relief for and rehabilitation of children who were victims of World War II. As the advocate of the world's children, UNICEF has programs in 112 countries. These programs range from basic child health care to sanitation and family planning.

The recent expansion of the Executive Board results in a voting imbalance in favor of developing countries which could foster some of the political pressures evident in other UN organizations. The Board, which had consisted of 15 members from developing and 15 members from developed nations, now consists of members from 29 developing and 12 developed nations.

UNICEF is financed by voluntary contributions from governments, organizations, and individuals. Most of the income is contributed by governments. In 1981, UNICEF's income totaled $291 million. The U.S. contribution was about $36 million which represented 21.5 percent of all government cash contributions. For several years, ten countries including the United States have accounted for approximately 90 percent of government contributions. The UN General Assembly has appealed for a more equitable distribution. UNICEF's income for 1982 was expected to approximate $375 million of which the United States pledged $41.5 million. The United States had paid $41.4 million by the end of 1982 with $57,000 withheld as the U.S. portion of the UNICEF program in Cuba.

Since its inception UNICEF has had an advocacy role on behalf of the needy children of the world. It has sought to focus world attention on the critical and basic needs of poor children and mothers in developing countries. During these years it has evolved into a development fund. This trend has been criticized by some of the other UN staffs.

There are a number of deficiencies, both internal and external, which impact on UNICEF programs and projects. A paper submitted to the Executive Board in 1979, identified a number of factors that impeded the UNICEF operations as follows:

-- The instability of certain countries.

-- Indadequate logistic systems, in some countries, sometimes delayed assistance by the late delivery of supplies and equipment.

-- Frequent turnover of program and ministerial staff.

-- Overly centralized decisionmaking which delayed timely assignment of support personnel.

-- In some instances, competition among ministries could result in overlapping programs.

-- Low availability of manpower with planning and administrative skills required for development work.

-- In some cases, inadequate surveys and poor designs plus careless construction work hampered timely delivery of safe water, and produced maintenance problems.

U.S. Government Oversight

The State Department is responsible for planning, coordinating and implementing U.S. policy concerning the United Nations (UN) system. The Bureau of International Organization Affairs (IO) has the lead responsibility for developing the U.S. position on all matters dealing with multilateral activities. It interfaces with UNDP and other UN programs and agencies on several levels and there are opportunities at all levels to more effectively harmonize U.S. bilateral and multilateral foreign policy goals and objectives.

There was an apparent lack of interest or concern on the part of U.S. Embassy personnel, including those of the U.S. Agency for International Development (USAID), in United Nations sponsored country level activities. This, in spite of the fact that in many countries USAID provides and sponsors its own projects, without sufficient information to assure that USAID activities are neither duplicative nor counterproductive to UN activities.

Most USAID and other officials in U.S. Embassies were apathetic concerning multilateral activities. Few officials offered explanations for their lack of knowledge of UN country programs and projects. The rationalization was that these activities were of no direct concern to the United States and not significant enough to merit much attention.

Infrequent contacts with UN programs and organizations, in particular with UNDP, represents a lost opportunity for the State Department to acquire information which could be of great value. For the most part, decisionmaking concerning United Nations programs and budgets is frequently based on inadequate information. UNDP officials contacted indicated they would welcome a closer involvement by the donor countries, including the United States, in the overall development activities. They generally agreed that none of the donor countries do a very good job of monitoring UNDP field activities.

Combined Economic Reporting Program (CERP)

The biennial CERP is a program designed to assess " * * * the effectiveness and efficiency of the UN system development assistance activities and their compatibility with U.S. interests." The biennial program seeks to provide the connecting link between U.S. Embassies in host countries and the other segments of the State Department. Unfortunately, it fails to accomplish these objectives because:

-- The information provided often is too dated to be meaningful.

-- Its consistency and completeness is dependent on the interest and knowledge of the preparer, who could be either a more experienced USAID officer or some junior member of the Embassy staff.

-- The CERP results in no apparent action in the State Department.

Interviews at the field level disclosed that personnel involved with the CERP were unsure of its use and value. Some of the Embassy staff were unfamiliar with this program, and were uncertain of the reporting requirements. Under the current biennial format the CERP usually does not provide up-to-date information.

U.S. Stewardship

One State Department official with many years experience in multilateral affairs advised there is no doubt that under existing policy the IO Bureau is responsible for justifying and supporting U.S. contributions to UN organizations and seeing how they are spent. He stated that, in most cases, IO staff responsible for UN programs have never seen a field operation or project. He was of the opinion that as a minimum the CERP should be upgraded and prepared annually as it once was. In his opinion, visits by IO program officers to UN projects together with an up-graded annual CERP, constitutes the minimum requirements for the State Department to meet its stewardship obligations.

Present Bureau of International Organization Affairs (IO)

The present Assistant Secretary of State for IO has established certain goals and priorities to improve IO operations and participation in the UN system which, if achieved, would correct some of the deficiencies noted in this report. The Assistant Secretary has given the highest priority to re-establishing U.S.

leadership in international organizations and programs. The other goals are to:

-- Strengthen U.S. influence in international organizations.

-- Control UN budget growth.

-- Increase U.S. representation in international organizations.

-- Increase the role of the private sector in international affairs.

In seeking to carry out these goals, he has directed that a full review of U.S. participation in international organizations be made. These goals have not yet been fully implemented within the IO and no evidence could be found at the U.S. Mission or Embassy level that these objectives had been communicated to the field. Where there was a USAID Mission, the Investigative Staff was invariably referred by other U.S. Embassy employees to the USAID Mission for briefings, and responses to questions about UN programs. Yet there was little indication of any real interest or responsibility by USAID in UNDP and in other UN development programs.

Success in multilateral affairs, in a large measure, depends upon the availability of adequate information to, and good communication between those responsible for the program administration. Notwithstanding such requirements, there are frequent and irritating communication breakdowns between the IO and USUN.

Congressional Restrictions

Congressional awareness of situations unfavorable to the United States has resulted in budgetary limitations. Among these are the provisions of the Joint Resolution, making continuing appropriations for the fiscal year 1983, which prohibits International Organizations and Programs funds to be used " * * * for any programs for the Palestine Liberation Organization, the Southwest African Peoples Organization, or Cuba * * *." These provisions are effective and have resulted in withholding $741,925 from U.S. contributions to a number of UN organizations: e.g., $550,000 has been withheld from 1982 contributions to UNDP and $57,000 from contributions to UNICEF as the U.S. share of expenditures for Cuba.

I. INTRODUCTION

A. Directive

By directive dated September 14, 1981, the Committee requested an investigation be made of various United Nations (UN) programs funded through the Departments of Commerce, Justice, and State, the Judiciary and Related Agencies Appropriations; and the Foreign Assistance Appropriations.

B. Scope of Investigation

The Investigative Staff reviewed legislation, overall policies, procedures, and practices followed by the Bureau of International Organization Affairs (IO) of the Department of State in carrying out its responsibilities with U.S. Missions, and with organizations and programs of the UN and the Specialized Agencies (SA's).

Officials of the Bureau of International Organization Affairs were interviewed, including the recently appointed Assistant Secretary, Deputy Assistant Secretaries, the Executive Director, program directors, managers and staffs, and key personnel in budget, political and economic areas, USAID and desk officers of the countries visited. For this phase of study, attention given to overall UN activities was limited primarily to functions relating to UNDP and UNICEF.

Many high ranking UN officials and permanent U.S. representatives to UN organizations and programs were contacted and interviewed. Among these the Ambassador and Representative of the United States to the United Nations, and the other Ambassadors to the UN, various other American Ambassadors and key U.S. officials in countries and U.S. Missions visited were interviewed in New York, New York; and in countries visited by the Investigative Staff. These key officials were interviewed relative to pertinent UN organizations and programs. Documents, intermediate plans and programs, budgets, personnel policies and programs were reviewed and discussed.

The current phase of study was expanded to cover visits to UN projects and sites in nine countries--China, Sri Lanka, Nepal, Thailand, Philippines, Indonesia, Brazil, Peru, and Colombia. Sixty-one projects located at 97 different sites were inspected and reviewed. Country Programs, and selected projects within these programs were discussed with host country officials, U.S. Embassy staffs, and various officials of UN organizations and programs including UNDP; United Nations Children's Fund (UNICEF); Food and Agriculture Organization (FAO); International Labor Organization (ILO); United Nations Educational, Scientific, and Cultural Organization (UNESCO); and the World Health Organization (WHO).

The review of selected UN organizations and programs has been an on-going one, beginning with the phases of study which resulted in An Interim Report to the Committee on Appropriations, U.S. House of Representatives on Selected Organizations and Programs of the United Nations, Surveys and Investigations Staff, April 1982 and continuing into the present phase of study. In summary, the primary purpose of this report is to expand the scope of investigation with emphasis on the role of the UNDP--as the designated coordinating agency--in carrying out its assigned responsibilities in the technical development activities of the United Nations.

II. UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

The UNDP, with headquarters in New York, was created in 1965 to replace the Expanded Program of Technical Assistance and the UN Special Fund as the central funding and coordinating organization for UN technical assistance for developing countries. It is a planning, funding and coordinating agency through which voluntary funds from donor nations are expended for programs and projects executed by various UN organizations and the specialized agencies. Its purpose is to promote self-reliance in developing countries by helping to build their productive capability and indigenous resources, and by putting at their disposal the managerial, administrative, scientific and technical know-how conducive to social and economic development.

A. Origin and Development

The UN in its charter recognized that "conditions of stability and well-being * * * are necessary for peaceful and friendly relations among nations" and Article 55 provides "the United Nations shall promote higher standards of living, full employment, and conditions of economic and social progress and development." In accord with these principles various UN entities have participated in programs to assist governments in eliminating constraints to their development by transferring needed know-how, skills, and knowledge. These programs have become known by the generic term of "technical assistance." The term "technical cooperation" is also used frequently by UN organizations, probably to connote the partnership that exists among grantor, grantee and the executor of technical assistance. Also, it may be used to take cognizance of the significant contribution often made by the host country to these projects. In any event, in this report the two terms "technical assistance" and "technical cooperation" are considered to be synonymous unless otherwise indicated.

Technical assistance to the developing countries prior to 1949 was generally provided by the specialized agencies from their regular budgets. On November 16, 1949 the UN General Assembly by resolution 304 (IV) established the United Nations Expanded Program of Technical Assistance and defined the objectives of the program and the principles of and machinery through which it was to operate.

As a result of United States initiatives in the UN to enlarge the technical assistance activities of UN agencies, the UN General Assembly in 1958 adopted Resolution 1240(XIII) establishing the UN Special Fund. The Special Fund which began operation in January 1959 was to "provide systematic and sustained assistance in fields essential to the integrated technical, economic and social development of the less developed countries * * *." The establishing resolution delineated that "the Special Fund shall assist projects in the fields of resources, including the assessment and development of manpower, industry, including handicrafts and cottage industries, agriculture, transport and communications, building and housing, health, education, statistics and public administration."

On November 22, 1965, the UN General Assembly by Resolution 2029(XX) authorized consolidation of the Expanded Program of Technical Assistance and the Special Fund into the United Nations Development Program.

On December 11, 1970, the UN General Assembly by Resolution 2688(XXV) approved the proposals of the UNDP Governing Council (commonly referred to as "the consensus") which articulates the comprehensive framework for the activities of the UNDP including basic principles, organizational structure--including the responsibilities of the various entities, i.e., Administrator, Governing Council, and relationships between the UNDP and the UN specialized agencies. The consensus established the UNDP country programs, inter-country programs and global programs based on prescribed development cooperation cycles and formulae for disposition of resources by means of indicative planning figures (IPF's). On November 28, 1975, the UN General Assembly by Resolution 3405(XXX) accepted and endorsed the decision adopted by the Governing Council of UNDP which "reaffirmed the consensus of 1970 as the comprehensive framework for the activities of the UNDP and also reaffirmed the voluntary and universal character of the program."

The consensus provided that the UNDP was to have a "decentralized" orientation and introduced the system of country programs and cooperative planning cycles which continue to be the bases for UNDP activities. This system is designed to coordinate UNDP assistance with the recipient countries' own development plans and with other external multilateral and bilateral aid. Country programs are drawn up by the governments in cooperation with UN representatives under the leadership of the UN Resident Representative. These country programs are based on 5-year IPF's (resource estimates) approved by the UNDP Governing Council, for each country. The third 5-year development cooperation cycle commenced in 1982 and the IPF's for the third cycle 1982--1986 were approved by the UNDP Governing Council in June 1982.

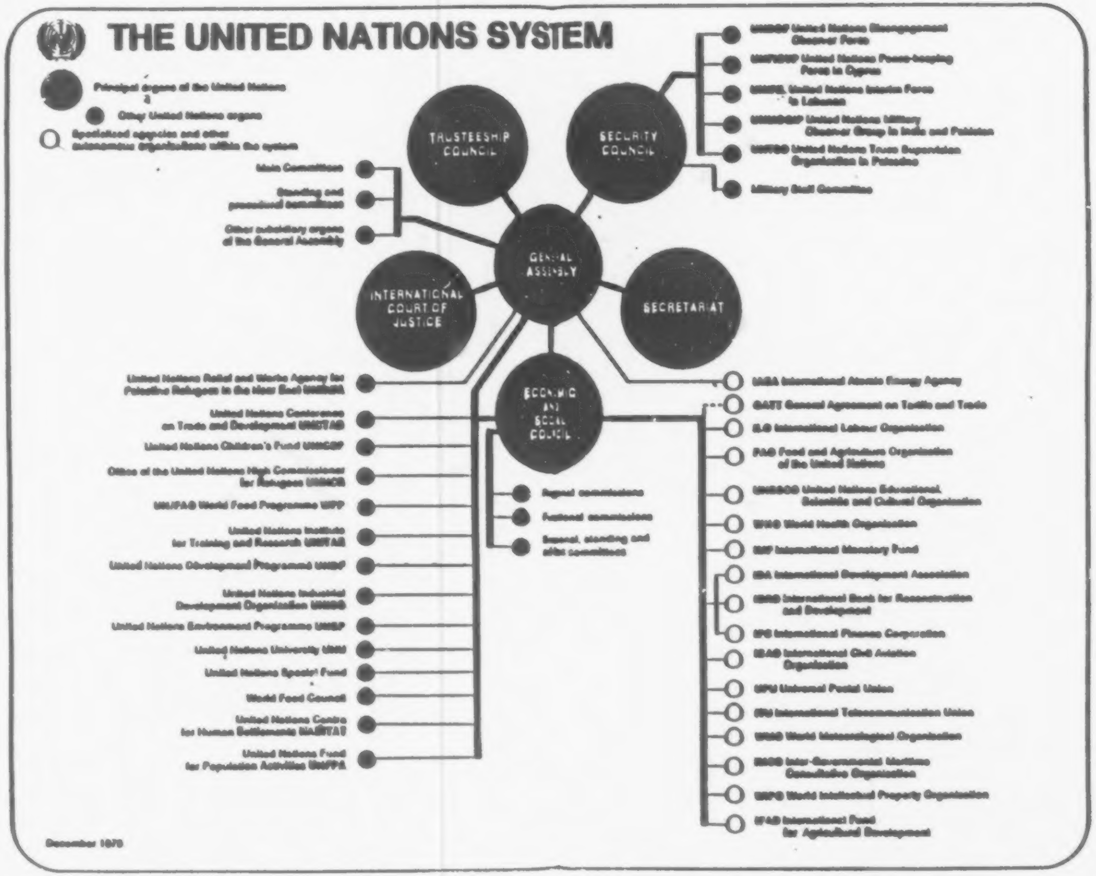
B. Focal Point For UN Technical Cooperation

The UNDP is the central funding and coordinating agency for technical assistance in the UN system. As such it is the world's largest multilateral technical assistance organization. However, it operates within a UN system concerned with the broader aspects of development activities including loans, grants, and other capital expenditures. Its mandate includes coordinating not only its own programs of technical assistance but also, at the field level, other UN operational activities for development. UNDP is just one of many separate voluntarily funded UN entitites involved in UN development activities. It competes for funds with the same agencies whose activities it is expected to coordinate and support. Its share of UN system-wide funds expended for technical assistance has been reduced from 80 percent in 1972 to 50 percent in 1981. However, UNDP continues to be the largest single component directly affiliated with the UN. In 1980, voluntary contributions to UNDP central resources were $716 million. This compares to the regular budget of other representative organizations: UN $513.6 million; ILO $104.9 million, FAO $139.3 million; UNESCO $151.5 million; WHO $213.6 million.

1. Development Assistance in the UN Milieu

The Economic and Social Council (ECOSOC), whose members are elected by the UN General Assembly, was established by the UN charter in recognition that economic and social development are primary concerns. ECOSOC is the principal UN organ responsible for formulating international policy in the economic and social fields and for coordinating United Nations activities in these areas "under the authority of the UN General Assembly." It is also responsible for the terms of UN relationship with the specialized agencies and for coordination of the activities of the specialized agencies subject to General Assembly approval. It is by way of these charter provisions that the specialized agencies have become affiliated with the United Nations and, although not UN organs per se, are considered to be within the "UN system" even though they have retained their independent status as separate international organizations. (Figure 1)

FIGURE 1


THE UNITED NATIONS SYSTEM
Principal organs of the United Nations
Other United Nations organs
Specialized agencies and other autonomous organizations within the system
TRUSTEESHIP COUNCIL
SECURITY COUNCIL
GENERAL ASSEMBLY
INTERNATIONAL COURT OF JUSTICE
SECRETARIAT
ECONOMIC AND SOCIAL COUNCIL
Main Committees
Standing and procedural committees
Other subsidiary organs of the General Assembly
UNDOF United Nations Disengagement Observer Force
UNFICYP United Nations Peace-keeping Force in Cyprus
UNIFIL United Nations Interim Force in Lebanon
UNMOGIP United Nations Military Observer Group in India and Pakistan
UNTSO United Nations Truce Supervision Organization in Palestine
Military Staff Committee
United Nations Relief and Works Agency for Palestine Refugees in the Near East UNRWA
United Nations Conference on Trade and Development UNCTAD
United Nations Children's Fund UNICEF
Office of the United Nations High Commissioner for Refugees UNHCR
UN/FAO World Food Programme WFP
United Nations Institute for Training and Research UNITAR
United Nations Development Programme UNDP
United Nations Industrial Development Organization UNIDO
United Nations Environment Programme UNEP
United Nations University UNU
United Nations Special Fund
World Food Council
United Nations Centre for Human Settlements HABITAT
United Nations Fund for Population Activities UNFPA
Regional commissions
Functional commissions
Sessional, standing and ad hoc committees
IAEA International Atomic Energy Agency
GATT General Agreement on Tariffs and Trade
ILO International Labour Organisation
FAO Food and Agriculture Organization of the United Nations
UNESCO United Nations Educational, Scientific and Cultural Organization
WHO World Health Organization
IMF International Monetary Fund
IDA International Development Association
IBRD International Bank for Reconstruction and Development
IFC International Finance Corporation
ICAO International Civil Aviation Organization
UPU Universal Postal Union
ITU International Telecommunication Union
WMO World Meteorological Organization
IMCO Inter-Governmental Maritime Consultative Organization
WIPO World Intellectual Property Organization
IFAD International Fund for Agricultural Development
December 1979

The vagueness of ECOSOC's focus and authority has allowed a proliferation of UN entities involved in social and economic activities. The UN Joint Inspection Unit, in a July 1981 report pertaining to the "Relationship between the Director-General for Development and International Economic Cooperation and Entities of the United Nations Secretariat", identified 24 separate "United Nations entities" which are concerned with economic and social questions. Some of these are UN Secretariat offices dealing mainly with policy, statistics, planning, and other secretarial support activities. However, of particular interest to this study are those UN activities of an operational nature.

"Operational activities for development" were defined in UN General Assembly Resolution 35/81 of December 5, 1980, as "those activities of a development cooperation character that seek to mobilize or increase the potential and capacities of countries to promote economic and social development and welfare, including the transfer of resources to developing countries or regions in a tangible or intangible form." As an indication of the number of UN entities involved in operational activities for development there were 20 separate UN funds and programs which participated in the 1981 Pledging Conference. (Conference wherein nations make voluntary financial commitments to the participating UN entities). UNDP, UNFPA, and UNICEF were the largest of these 20 participants. Significant non-participants include the specialized agencies, World Food Program and the World Bank Group.

In 1981, a total of $5.3 billion was contributed voluntarily by governments and other sources to the operational activities for development including all funds and programs of the UN, the operational activities of specialized agencies, WFP, IFAD, and the World Bank Group. This compares to $5.6 billion in 1980 and $4.8 billion in 1979. Of the total $5.3 billion contributed in 1981 for operational activities, UNDP received $705.4 million, or 13.4 percent (cost sharing and government counterparts are not included). According to UN documents, the United States contributed $958 million, or 18 percent, of the $5.3 billion total contributed in 1981.

Considering only expenditures for technical cooperation, the total for 1981 amounted to $2.0 billion including the technical cooperation embodied in the World Bank lending program--$517 million. UNDP's share of total system-wide technical cooperation was about 50 percent in 1981, the same as 1980, but down from 80 percent in 1972. If the World Bank's support for technical cooperation on a loan basis is taken into account, UNDP's share is considerably less--about 39.4 percent in 1980 down from 53.2 percent in 1973. (Figure 2)

2. UN Efforts to Restructure Development Activities

With the expansion of UN membership, now 157 members composed largely of developing nations, interest in development activities has increased. The increased level of developing nations' concerns and their prevalent articulations of interests and needs has resulted in the piecemeal development of a series of programs and strategies together with various funds, programs, and UN entities to support them. This emphasis resulted in broad programs and strategies embodied in the "Declaration and Program of Action on the Establishment of a New International Economic Order" and the "Charter of Economic Rights and Duties of States," both adopted by the UN General Assembly in 1974. Despite pervasive efforts throughout the UN system to fulfill the goals of the Declaration and The Charter, the results have been less than desired.

FIGURE 2

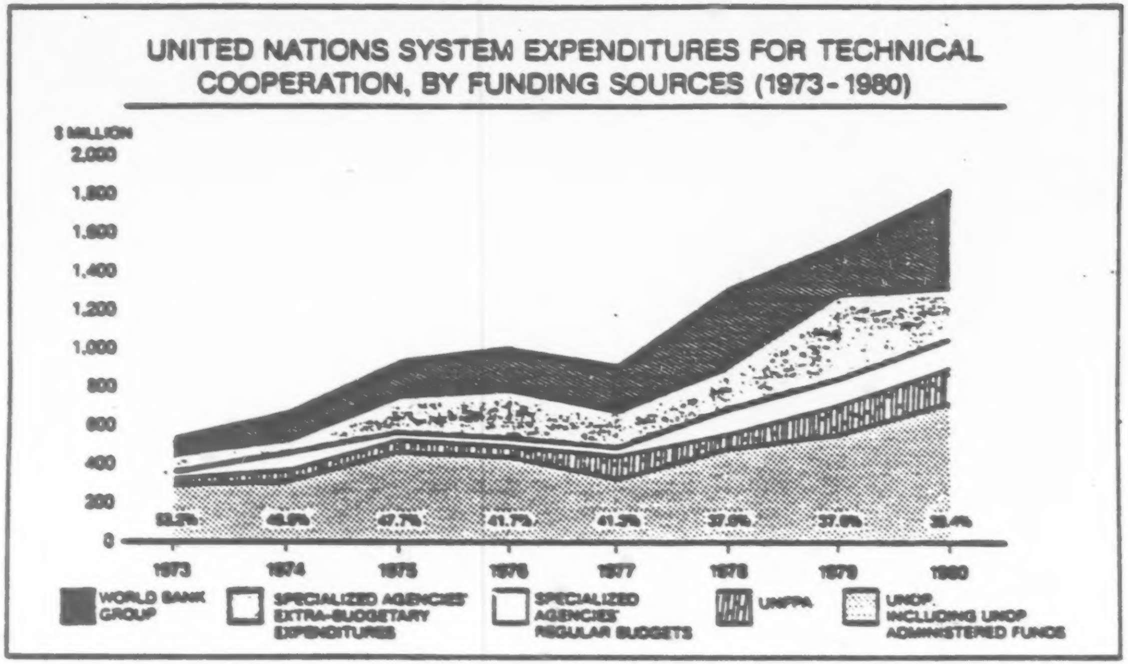


Chart taken from UNDP Document
DP/1982/6, 26 April 1982

Numerous studies have called attention to the lack of central control, the over-lapping of authority among UN entities, the lack of "program complementarity" which encumber and frustrate efforts towards coordination and efficiency, and funding mechanisms that foster competition among various organizations within the UN system. It was in this context that the UN General Assembly adopted Resolution 32/197 on December 20, 1977, entitled "Restructuring of the economic and social sectors of the United Nations system" and then affirmed its resolve by adopting resolution 33/102 on January 29, 1979. These two "restructuring" resolutions are the basic legislative documents relating to development activities of the UN system. They were designed to make the UN system "more fully capable of dealing with the problems of international economic cooperation and development in a comprehensive and effective manner" and "more responsive to the requirements" of the provisions of the Declaration and the Program of Action on the Establishment of a New International Economic Order as well as those of the Charter of Economic Rights and Duties of States.

The following are among the important provisions encompassed in the restructuring resolutions:

- The position of Director-General for Development and International Economic Cooperation was established to provide leadership to the various components of the UN system in the field of development and economic cooperation.
- Affirmed that at the country level the "country programming process" (of UNDP) was to serve as a "frame of reference for the operational activities carried out and financed by the organizations of the United Nations system from their own resources."
- Established the concept of resident coordinator--a single individual responsible for, and coordinator of, operational activities for development at the country level.
- Fortified and strengthened the role of the Regional Commissions (subsidiaries of ECOSOC) and granted them the status of executing agencies for operational activities at the regional level.
- Provided that "the machinery for interagency coordination at the intersecretariat level should center on the Administrative Committee on Coordination (ACC) under the leadership of the Secretary General."

The resolutions envisaged the restructuring process to be an on-going one directed and coordinated by the newly designated Director-General for Development and International Economic Cooperation (DGD). The DGD in his annual report, September 28, 1982, advised that the "attainment of the broad objective * * * of greater uniformity and harmonization has been slow and irregular for two main reasons. First, it should be recognized that the UN system comprises autonomous international organizations, each with their own legal personality. Second, the degree to which uniformity in procedures may be attained is influenced by the existence of a number of regular and extrabudgetary sources of funding of operational activities for development--each of which has its own requirements--and by the decreasing proportional share of a single major source of funds."

Ultimate success will depend on the cooperation of the UN member states, the expertise and dedication of the UN secretariat personnel and to a great extent the degree of cooperation extended by the various specialized agencies, UN organizations, and programs having their own independent governing bodies and sources of income. It will require efforts by governments to reach a consensus on major issues and to adopt consistent positions in the various intergovernmental bodies.

The UNDP country programs were affirmed by the restructuring resolutions as the basis for operational activity for development. The resolutions also defined the responsibilities and inter-relationships of various UN organs and entities including the General Assembly, Secretary-General, ECOSOC, Regional Commissions and the ACC. Of particular interest are: the newly created position of Director General for Development and International Economic Cooperation, Regional Commissions, and the ACC as they directly impact the operational activities of UNDP.

Director-General for Development and International Economic Cooperation (DGD)

The DGD position was created by UN General Assembly Resolution 32/197. This resolution provides that the DGD, under the authority and direction of the Secretary-General, is to be in charge of:

> "(a) Ensuring the provision of effective leadership to the various components of the United Nations system in the field of development and international economic cooperation and in exercising overall co-ordination within the system in order to ensure a multidisciplinary approach to the problems of development on a system-wide basis;
>
> "(b) Ensuring, within the United Nations, the coherence, co-ordination and efficient management of all activities in the economic and social fields financed by the regular budget or by extrabudgetary resources."

The footnote to sub-paragraph (b) elaborates as follows: "This applies equally to all services and organs within the United Nations without prejudice to their respective spheres of competence or terms of reference as contained in their relevant legislative mandates." (Underlining added for emphasis.) Resolution 33/202 affirmed that the Director-General should be "fully and effectively utilized" in the execution of the above mentioned functions, and should have full and effective " * * * authority over all services and organs within the United Nations at the level of the secretariates * * * without prejudice to their respective spheres of competence or the terms of reference as contained in their relevant legislative mandates * * *." (Underlining added for emphasis.)

The Director General is responsible for the system of resident coordinators. In accord with the agreement of the Administrative Committee on Coordination (ACC), the UNDP Resident Representative in the normal case will be designated as the resident coordinator. As of January 13, 1983, resident coordinators had been designated in 95 countries; and ninety-four were UNDP resident representatives.

The functions and responsibilities of the Director-General are broad. However, as is the case throughout the

UN system his authority is tenuous and is dependent upon cooperative attitudes of all the UN system entities involved in development activities. Indicative of problems facing the Director General, an appointee of the Secretary General, is his relationship with entities which enjoy a degree of autonomy. The Joint Inspection Unit (JIU) made a study of the "Relationships between the Director-General for Development and International Economic Co-operation and Entities of the United Nations Secretariat." In its July 1981 report JIU stated in part:

> "It appears, however, that the situation with regard to the Director-General's relations with entities which enjoy a degree of autonomy is not fully satisfactory, and that the consultative arrangements have not yet had the effect desired. In particular, uncertainty has been expressed to the Inspectors by certain heads of entities, particularly those reporting to their own specialized intergovernmental bodies, about the extent to which they come under the authority of the Director-General. This uncertainty is not peculiar to relationships with the Director-General. It also characterizes relations between these entities and the Secretary General, ECOSOC and the General Assembly itself. There is a certain fragmentation of authority." (Underlining added for emphasis.)

The Director-General is appointed by the Secretary General in full consultation with member states. Although he is not elected or confirmed by the General Assembly, he is supposed to exercise leadership and authority over heads of economic and social entities in the UN Secretariat, some of whom are confirmed or elected by the General Assembly, such as the heads of UNDP, UNIDO, UNCTAD, UNHCR, and UNEP. The Director-General also has to deal on an equal footing with the heads of the specialized agencies, all of whom are appointed by their legislative bodies. It was intended that the Secretary-General designate the Director General to chair, on his behalf, ACC meetings devoted to general development issues. However, this has not been possible as some of the ACC members (heads of specialized agencies) cannot accept that their meetings be presided over by an official who has not been appointed by a supreme legislative body.

UN Regional Commissions

There are five regional commissions, under the authority of the UN Economic and Social Council, whose aim is to assist in the economic relations of the countries in each region, both among themselves and with other countries of the world. The five regional commissions are:

Economic Commission of Africa (ECA)
Economic and Social Commission for Asia and the Pacific (ESCAP)
Economic Commission for Europe (ECE)
Economic Commission for Latin America (ECLA)
Economic Commission for Western Asia (ECWA)

The restructuring resolution 32/197 defined the role of the regional commissions as the general economic and social development centers within the United Nations system for their respective regions, having due regard for the responsibilities of the specialized agencies and other United Nations bodies in specific sectoral fields and for the coordinating role of the UNDP in respect to technical cooperation activities. Resolution 32/197 states in part, "close cooperation with the UNDP should be established and appropriate arrangement made to enable the regional commissions to participate actively in the operational activities carried out through the United Nations systems, including the preparation of inter-country programs * * * ." Resolution 33/202 specifically granted the regional commissions "the status of executing agencies, in their own right, in respect of the categories of projects described in * * * Resolution 32/197." These were stipulated as "intersectoral, subregional and inter-regional projects and in areas which do not fall within the purview of the sectoral responsibilities of specialized agencies and other United Nations bodies, for other subregional, regional and interregional projects."

UNDP records indicate the following UNDP project expenditures were made for projects executed by the regional commissions as follows:

($ Million) FOR THE SECOND CYCLE (1977-1981)

	1977	1978	1979	1980	1981	Total
ECA	0.9	2.4	4.4	7.5	7.8	23.0
ECWA	0.1	0.3	0.3	0.6	0.5	1.8
ESCAP	1.8	2.2	3.9	6.2	5.2	19.3
ECLA	-	1.1	1.6	1.8	2.1	6.6
ECE	-	-	0.1	0.2	0.9	1.2

The above figures compare to overall field program expenditures (including country programs) for the respective regions during the second cycle (1977-1981) as follows:

	($ million)
Africa	$761.6
Arab States	$315.5
Asia and the Pacific	$718.1
Latin America	$372.0
Europe	$ 89.1
Intercountry	$439.5

It can be seen from the above tabulations that as far as UNDP project execution is concerned the regional commissions' participation has been relatively small. Of the $439.5 million total expenditures for intercountry programs during the second cycle, about $53 million (11.8 percent) was expended on programs executed by the regional commissions. One reason for the limited participation by the regional commissions is the fact that the restructuring resolutions reserve to other UN entities all country projects and regional projects in which those entities have "sectoral" expertise.

Administrative Committee on Coordination (ACC)

The Administrative Committee on Coordination (ACC) is the principal executive coordination arm of the UN system. Its function is to supervise the implementation of agreements between the United Nations and the specialized agencies to assure that activities of various bodies are being coordinated. The Committee consists of the UN Secretary General--as permanent chairman--and the executive heads of the specialized agencies.

When the UNDP was formulated in 1965, the UN established an advisory committee, the Inter-Agency Consultative Board of UNDP, to meet under the chairmanship of the UNDP Administrator and to include the Secretary-General of the UN, the executive heads of the specialized agencies and of the IAEA or their representatives. The Executive Directors of UNICEF and WFP were to be participants as appropriate. The InterAgency Consultative Board was to "advise the management on the programs and projects submitted by Governments, through the Resident Representative, prior to submission to the Governing Council for approval, taking into account the programs of technical assistance being carried out under the regular programs of the organizations represented on the consultative board, with a view to ensuring more effective coordination * * *."

The UN restructuring resolution 32/197 provided that the ACC should be the center for interagency coordination of operational activities for development at the intersecretariat level and specifically called for the ACC to assume the functions of the Consultative Board. The ACC has also assumed a consultative role with regard to the designation of UN resident coordinators (generally the UNDP resident representative) and has been instrumental in formulating the functions and the role of the resident coordinators.

At its 36th session the UN General Assembly moved to strengthen the role of UNDP by endorsing Resolution 1981/59 of ECOSOC which reaffirmed "the central funding and co-ordinating role of UNDP in the field of technical cooperation within the United Nations system"; urged "that the need to preserve this role should be taken fully into account in the consideration of new funding arrangements for technical cooperation activities"; and requested "all international organizations participating in the United Nations system to strengthen this mutual coordination both between headquarters and at the field level, with a view to improving the integration of technical assistance, in particular to enable the resident coordinators to act as the central co-ordinating authority on behalf of the United Nations development system at the field level."

The worthy aspiration embodied in the resolution cited above can not and will not be fulfilled without the substantial support of the ACC and the specialized agencies.

C. Organization

UNDP is headed by an Administrator, an American, whose term of office expires December 31, 1983. He heads an organization which is largely decentralized with offices in 114 countries. The headquarters consists of four regional bureaus: Regional Bureau for Africa, Regional Bureau for Arab States, Regional Bureau for Asia and the Pacific, and the Regional Bureau for Latin America. They are augmented and supported by: Bureau for Program Policy and Evaluation, Bureau for Special Activities, and the Bureau for Finance and Administration.

1. Administrator

The Administrator is appointed by the Secretary General and confirmed by the UN General Assembly for a term of four years. He is the chief executive officer and is responsible and accountable for all phases and aspects of the UNDP implementation and activities. To fulfill these responsibilities he has the authority, in consultation with the Secretary General, to frame staff rules as he considers necessary. Although the Secretary General is the custodian of UNDP funds, decisions regarding the UNDP investment portfolio and currency management are reached in agreement with the Administrator subject to review by the UNDP Governing Council.

The Administrator is responsible for the proper utilization of program funds and for the exercise of proper financial and accounting controls. He is to cooperate in efforts to achieve common budgeting policies and accounting systems throughout the UN. In presenting forecasts of expenditures, the Administrator is to clearly distinguish among the following types of expenses: (a) project costs, (b) program support costs, and (c) administrative costs.

The trend in UNDP has been towards decentralization with greater program authority and responsibility placed on the UNDP Resident Representatives located in some 114 countries throughout the world. At the headquarters level the regional bureaus provide the organizational link between the Administrator and the Resident Representatives concerning all field activities.

2. Governing Council

The Governing Council is the policy-making body of UNDP. It is composed of 48 members (having been enlarged from 36 members in 1971) who are elected by ECOSOC, on a staggered basis, for a term of three years. Eligibility for Council membership is limited to countries who are members of the UN, the specialized agencies or IAEA. Membership is allocated on a geographical basis in an effort to provide dispersal among the various geographical regions and among the developing and developed nations as follows:

-- Eleven seats for African States.

-- Nine seats for Asian States and Yugoslavia.

-- Seven seats for Latin American States.

-- Seventeen seats for West European and other States (the United States is included in this grouping).

-- Four seats for East European States.

The United States term of membership on the Council will expire on December 31, 1984.

The Governing Council is responsible for policy formulation, determination of program priorities and review of program implementation in both planning and practice. In performing its functions the Governing Council considers and approves the various country programs and the indicative planning figures (resource projections) usually for a five-year period. It also approves certain projects included in the country programs and inter-country programs, makes periodic reviews of program activities, and allocates and controls resources primarily by means of budget and program review and approval. In 1972 the UN General Assembly also placed the UN Fund for Population Activities (UNFPA) under the authority of the UNDP Governing Council in order to provide UNFPA with an intergovernmental body responsible for its operations. (Acting in this capacity the Council, at its last annual meeting in June 1982, approved UNFPA programs which earmarked a total of $149 million for 1983 activities and $111.75 for 1984.)

The Governing Council meets annually with intersessional meetings held as necessary and approved. Decisions of the Council are generally made in the form of recommendations or approvals based on a consensus of members participating and with allowance for recording individual members reservations and concerns. This seems to be traditional with many of the UN intergovernmental deliberative bodies and is pointed to with pride by UNDP officials.

3. Field Operations

UNDP has a network of Resident Representatives located in 114 countries: 23 in Asia, 42 in Africa, 19 in the Arab States, 6 in Europe and 24 in Latin America. A typical UNDP field office consists of a Resident Representative, a Deputy Resident Representative, and a number of Assistant Resident Representatives depending on the size of the office. The office may also consist of other professional specialists, junior professionals and support personnel as needed. The UNDP office often houses and supports other UNDP operations such as representatives of UNFPA, WFP, and represents UNEP, UNFDAC, HABITAT, UN Regional Commissions and others when called upon.

The field organization of UNDP is well established and is more widespread than any of the other UN field operational networks. The UNDP Resident Representative has traditionally been called upon to represent the UN with regard to any UN interests not otherwise represented in that particular country. The UN restructuring resolutions, mentioned previously, officially recognized the primary role of the UNDP country program activities and established the position of Resident Coordinator--who will in the usual case be the UNDP Resident Representative. As Resident Coordinator, he is charged with the responsibility of coordinating all operational activities for development in the country of residence. It has been estimated by UNDP officials that about 30 percent of the Resident Representatives' resources are devoted to and expended on services outside the scope of UNDP administered program activities.

The Investigative Staff visited the offices of nine separate Resident Representatives. They were generally recognized among the diplomatic community and the host government officials as leaders of multilateral development activities within their respective countries of assignment. It was apparent from remarks made by bilateral donor representatives and others that the Resident Representatives'--and therefore, UNDP's--influence far exceeded the limits of UNDP sponsored and financed activities and was greater than might be expected from the size of the UNDP program within the country.

The degree of effectiveness of the Resident Representatives in their expanded coordinating role seems to be dependent to a large extent on individual personalities--and individual perceptions of their role and responsibilities. All of the Resident Representatives visited by the Investigative Staff seemed to be certain and assured with regard to administering the UNDP programs. However, some expressed opinions that the role of Resident Coordinator has not been adequately defined; that some of the other UN entities and their field representatives have not fully accepted the Resident Coordinator concept; and that the Resident Coordinator has been delegated duties and responsibilities without sufficient authority. Some made comments indicating that there was not a proper recognition of the considerable overhead expense involved in performing the expanded duties and there was a tendency among reviewing officials to charge such expenses against UNDP program costs. The Resident Representative is an employee of the UNDP and is accountable to the UNDP Administrator. His career is dependent on his effectiveness in this position. However, as Resident Coordinator he is responsible to the Director General for his coordinating activities but the direct organizational link is tenuous and remote.

Criticisms expressed at the UNDP Governing Council meeting in June 1982 are indicative of the problems that face the Resident Representatives in their coordinating roles. The Investigative Staff was advised that representatives of FAO, ILO, and WHO accused UNDP of inadequate consultation and of seeking to compete with, if not usurp, the role of specialized agencies. These interventions tend to confirm a common belief that UNDP has never been accepted as either the central funding source or coordinator of multilateral technical assistance. Notwithstanding the problems and criticisms, the Governing Council fully supported UNDP's central funding and coordinating role, and authorized the Administrator to continue to provide field office services to executing agencies for 1982-1983 at the same level without seeking reimbursement. There were misgivings among Council members that to do otherwise might adversely affect UNDP's central role of funding and coordinating technical assistance. The UN system has taken cognizance of the Resident Coordinator problems. The JIU has advised that it is conducting a study of the Resident Coordinators. As previously noted, there have been resolutions in various UN bodies seeking cooperation with the Resident Coordinator concept and practice.

The DGD in his annual report, October 14, 1982, commented " * * * greater exchange of information is required among organizations of the system at the country level to enhance the effectiveness of programs. For example and to that end, the Resident Coordinator should be kept effectively and closely informed of all stages of project preparation, implementation and evaluation--irrespective of the source of funds--in accordance with Government wishes. This would, in addition contribute to the streamlining of the organization of missions to individual countries in order to avoid overburdening the administration of beneficiary countries and the reduction of duplication and waste."

The ACC currently has under review the arrangements by which the Resident Coordinators exercise their functions. The DGD indicated he intends to include information on this review in his 1983 report.

The future success of UNDP as the central funding and coordinating organization for technical assistance may well depend to a large measure on whether or not the specialized agencies are willing to accept the concept of UNDP Resident Representative in the role of Resident Coordinator. Significant indication of acceptance might include the reduction in the number of resident field missions of other UN and specialized agencies which are increasing; and/or organizational decentralization by the specialized agencies which was urged in the restructuring resolution. The former would provide economies to the overall UN system by reducing the number of separate UN country missions. The latter would enable the decisionmaking process regarding UNDP projects to occur at the same administrative level--the country level--for both UNDP and the executing agencies. Under the existing set-up, UNDP decisions made at the country level often must await executing agency decision and approval at headquarters level.

D. Activities

UNDP programs of technical assistance are designed to promote self-reliance in developing countries with regard to the managerial, technical, administrative and research capabilities required to formulate and implement development plans and policies, including the management and development of appropriate institutions and enterprises. Technical assistance is an essential precondition for the optimal and sustained use of capital, especially in the poorest countries where the capacity to absorb resources is low and capital is poorly utilized.

UNDP's approach is a holistic one. It professes to have no sectoral bias and is concerned with the overall needs on a country-by-country basis. UNDP works with some 150 developing countries to create conditions necessary for:

-- Increased output of food, fuel, raw materials, industrial products and essential consumer goods.

-- Expansion of employment, housing, health care, education, vocational training, public and administrative services, trade, transport, and communications.

-- Growth and diversification of international trade.

To achieve these goals UNDP supports projects which:

-- Survey and assess such natural resource development assets as farmland and forests, rivers and subsurface waters; mineral deposits, fuel reserves, etc.; and such social and economic assets as demographic, cultural, technological, and scientific resources.

-- Provide training in the entire range of skills needed for economic and social development.

-- Create and upgrade local institutions and hierarchies, government and private, to support, manage, and administer development activities.

-- Transfer and develop technologies and know-how, including both social and physical technologies.

Twenty-seven different agencies of the UN system, together with developing country governments, are involved in executing UNDP projects. The executing agencies are responsible for all activities that comprise UNDP-financed project implementation and delivery. The executing agencies recruit project personnel, purchase the necessary special equipment, grant the fellowships for training and award subcontracts for service.

Most of the projects are executed by the specialized agencies which have many years experience in their particular fields of interest. However, about 5 percent of the projects in both 1980 and 1981 were executed by UNDP's own Office of Project Execution (OPE). For the most part the OPE projects involve high technology, a need for quick delivery, or have other unique features that do not readily fall within the expertise of other UN system agencies. Also, a relatively small number of projects--40, calling for expenditures of $12.3 million--were executed by the recipient governments in 1981, but UNDP is moving towards greater participation by the recipient governments in the future. This trend is supported by the UNDP Governing Council in recognition of the increasing capabilities of the developing countries.

1. Overview--Distribution of Project Resources

In 1981, UNDP expended $731.6 million dollars (including $9.8 million cash counterparts from governments) on 5,074 projects worldwide. UNDP's expenditure--$731.6 million--represents only 42 percent of the total value of the field work performed--$1,741.9 million. The other 58 percent--$1,010.3 million--was provided by the recipient governments, usually in the form of "in kind" resources.

The following tabulations show the distribution of 1981 UNDP field program expenditures, exclusive of $9.8 million government cash counterpart contributions, expressed in millions of dollars and percentage of the total.

	(Millions)	Percent
By Region:		
Africa	$221.2	30.7
Asia	190.1	26.3
Arab States	86.2	11.9
Europe	17.0	2.3
Latin America	85.2	11.8
Regional, Inter-regional and Global	122.1	17.0
Total	$721.8	100.0
By Economic and Social Sectors:		
Agriculture, Forestry and Fisheries	$173.2	24.0
Industry	79.4	11.0
Transport and Communications	102.5	14.2
Health	33.2	4.6
International Trade	17.3	2.4
Employment	39.0	5.4
Natural Resources	78.7	10.9
Population, Human Settlements, Humanitarian Aid, Social Equity and others	28.9	4.0
General Economic Planning	90.2	12.5
Education	48.4	6.7
Science and Technology	31.0	4.3
Total	$721.8	100.0
By Components:		
Project Personnel	$372.7	51.6
Equipment	161.2	22.3
Subcontracts	88.5	12.3
Training	72.3	10.0
Miscellaneous	27.1	3.8
Total	$721.8	100.0

By Executing Agencies:

The following tabulation shows UNDP project expenditures for the years 1972-1981 (first two UNDP program cycles) for each of the executing agencies:

UNDP
Project Expenditures: 1972-1981
($ millions)

EXECUTING AGENCIES	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981[a]
UN	45.9	44.8	45.5	64.1	59.1	51.0	63.5	65.1	83.6	91.5
ILO	30.3	27.4	28.0	38.4	33.5	25.8	37.9	46.0	56.2	54.0
FAO	85.1	78.9	78.4	119.7	115.2	88.4	111.1	131.4	167.1	182.5
UNESCO	41.4	36.6	34.1	44.0	39.2	29.5	33.2	45.9	53.9	52.2
WHO	13.6	14.1	15.9	22.9	20.7	14.9	14.3	16.2	22.7	23.6
ICAO	5.9	7.3	9.8	16.2	18.4	15.1	26.3	29.5	36.1	39.8
WMO	6.0	5.3	5.7	6.8	6.6	6.6	7.8	8.7	9.9	12.4
IAEA	2.2	2.0	3.1	4.0	3.0	2.8	3.2	6.0	4.4	4.9
IMCO	0.7	1.4	1.5	2.5	2.4	2.1	2.0	2.6	5.8	7.1
ITU	8.2	10.0	11.2	16.8	17.5	12.5	16.2	20.5	27.0	32.3
UNDP	1.8	3.7	13.9	28.7	20.2	25.0	35.4	44.0	53.8	52.4
UNIDO	17.0	16.2	19.7	30.8	31.7	33.7	42.4	51.4	56.9	66.9
UNCTAD	2.9	3.9	4.4	7.8	8.4	8.1	9.5	13.2	15.8	17.1
UPU	1.1	1.4	1.7	2.4	1.4	0.6	1.5	2.1	3.6	3.3
World Bank	11.2	15.1	13.6	12.1	13.5	11.4	16.1	26.5	29.0	35.5
IDB	0.6	0.4	0.2	1.2	1.7	0.3	0.5	0.3	0.2	-
AsDB	-	0.8	0.9	1.3	1.4	0.4	0.9	1.5	3.9	2.5
AFESD	-	-	-	-	-	0.9	0.6	0.3	0.4	0.6
ECA	-	-	-	-	-	0.9	2.4	4.4	7.5	7.8
ECWA	-	-	-	-	-	0.1	0.3	0.3	0.6	0.5
ESCAP	-	-	-	-	-	1.8	2.2	3.9	6.2	5.2
ECLA	-	-	-	-	-	-	1.1	1.6	1.8	2.1
UNV	-	-	-	-	-	-	0.2	1.3	2.7	4.5
Governments	-	-	-	-	-	0.2	0.6	7.2	7.8	10.3
HABITAT	-	-	-	-	-	-	-	12.3	11.5	11.0
WIPO	-	-	-	-	-	-	-	0.2	0.4	0.5
WTO	-	-	-	-	-	-	-	0.4	0.8	0.4
ECE	-	-	-	-	-	-	-	0.1	0.2	0.9
Sub-Total[b]	273.9	269.3	287.6	419.7	393.9	332.1	429.2	542.9	669.8	721.8
Government cash counterpart expenditures	3.3	5.4	6.9	6.3	6.5	5.8	6.4	4.7	7.8	9.8
TOTAL	277.3	274.7	294.5	426.0	400.4	337.9	435.6	547.6	677.6	731.6

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a/ All data for 1981 are provisional.

b/ Data cover expenditures financed under UNDP IPF, Programme Reserve, Special Measures Fund for Least Developed Countries, Special Industrial Services (SIS) and cost sharing.

By Resource Elements:

The following tabulation shows the quantities of various inputs for UNDP financed projects in 1981:

Number of experts in field	9,863
Number of fellowships	11,443
Cost of equipment ordered	$141.2 million
Value of subcontracts awarded	$ 81.7 million

By Functions:

The UNDP categorizes its projects by functions based on the purposes and objectives of the individual projects. There were a total of 5,074 on-going projects in 1981. The following tabulation shows projects broken down by functional categories. According to UNDP some projects fall within more than one category and therefore are counted more than once:

Surveys and Feasibility Studies	355
Basic and Applied Research	390
Professional and Vocational Training	1,207
Development planning for all economic and social sectors	3,287

2. Range of Programs

The essence of UNDP programming is its focus on providing technical assistance to developing countries within pre-established estimates of available resources (indicative planning figures) based on the countries' own individual national development plans. The main programs are formed on five year projections--five year development cooperation cycles and the indicative planning figures (IPF's) for the cycles.

Each country's IPF is based on per capita GNP and population size. Special consideration is given to the special needs of least developed countries, land-locked countries, island developing countries, newly independent countries and countries suffering from acute ecological and geographical disabilities. For the third cycle commencing in 1982, 81 percent of available funds will be allocated to country programs (19 percent to regional, inter-regional and global programs) and 80 percent of the country program allocation will go to programs in countries having a per capita GNP below $500. Recipient countries whose GNP's are above $1,500 per capita will be obligated, commencing in 1982, to carry a greater share of the burden--i.e; to reach a level of reimbursement ranging from 50 to 100 percent.

The UNDP's Governing Council decided in 1980, with affirmations in 1981 and 1982, that "for the purposes of forward planning, an assumed overall average annual growth of voluntary contributions and other program resources of at least 14 percent on a cumulative basis" should be used. Therefore, the "illustrative" IPF's for the third cycle (1982-1986) reflect the anticipated 14 percent growth rate--even though UNDP receipts for 1981 were less than 1980 and the prospects of 14 percent growth in the near future appear very doubtful. However, UNDP operates on a pay-as-you-go basis--current year's expenditures are paid from current year's voluntary contributions with a $200 million reserve essentially to cover liquidity fluctuations. Faced with funding levels far less than those set in the IPF's, UNDP has developed "authorized budget levels" for planning and resource management. These levels are formed on realistic estimates of resources expected to be available for each of the future years of the cycle. The authorized budget levels are currently set at about 55 percent of the IPF's, which means that the UNDP programs will be sharply trimmed.

Although UNDP's resource management system is sound, the unrealistic IPF's set by the Governing Council do create problems. There is a tendency on the part of some countries to look upon the IPF as a commitment and entitlement. It was pointed out to the Investigative Staff that unrealistically high

IPF's have a demoralizing effect when not realized. The gap between the IPF and the actual funding level is seen as being indicative of a lack of donor confidence in UNDP and the greater the gap the greater the doubts about the credibility of UNDP as a central funding and coordinating agency for technical assistance.

Programming of UNDP assistance is a means to attain a rational and efficient utilization of the limited resources available in seeking to have the maximum impact on the economic and social development of developing countries.

Country Programs

Country programming is based on individual national development plans and, where none exist, on national development priorities or objectives. It should be clearly recognized that the government of the host country is exclusively responsible for formulating its national development plan, priorities, and objectives. To the extent necessary the government of the recipient country is aided by representatives of the UN system theoretically under the leadership of the UNDP Resident Representative. In practice the role played by the Resident Representative may vary considerably due to political conditions, personalities, and the philosophy of the particular government concerned.

The 1970 consensus brought an orderly process to the planning of country programs. It provided that the country program should involve:

> "- A broad identification of the needs which arise out of the country's objective in particular sectors, within the framework of its over-all development objectives, and which might appropriately be met by UNDP assistance;
>
> "- As precise an indication as possible of the internal inputs, UNDP inputs and wherever possible other United Nations inputs to meet these needs;
>
> "- A preliminary list of projects to be subsequently worked out for financing by the UNDP to implement the country programme.
>
> "In the process of country programming, efforts should be made at all levels to coordinate all sources of assistance in the United Nations system with a view to achieving integration of the assistance at the country level. It will be for the Government to take into account, while preparing the country programme, other external inputs, both multilateral and bilateral."

Upon completion, the country program is forwarded to the UNDP Administrator who in turn submits it with his recommendation to the UNDP Governing Council for review and approval.

Projects

The country program which usually spans a 5-year timeframe is not required to detail projects. Project formulation is a continuous process within the 5-year cycle limited only by available funds (authorized budget level) and the broad objective set forth in the country program. The host country is responsible for developing project details, often seeking help from UNDP and specialized agency representatives. The help usually takes the form of a preparatory working group of agency and UNDP representatives who, together with the Government, define immediate and long term project objectives, identify any preparatory work that may be needed and develop a work plan.

The consensus placed broad responsibility for project approval on the Governing Council but, for the most part, this authority has been delegated to the Administrator. In practice smaller projects can be approved by the UNDP Resident Representative at the country level--larger projects are submitted to the Administrator for approval. (There are indications that the Governing Council is seeking ways to become more involved in country program and project development). Once a project is approved for UNDP funding it is the responsibility of the Administrator in consultation with the Government to designate the agency which will be responsible for executing the project.

Regional, Inter-Regional and Global Programs

In addition to country programs, there are intercountry programs which involve UNDP assistance for a group of countries on a sub-regional, regional and global basis. The procedure for formulating and approving intercountry projects follow the same general rules as for projects within country programs, and are also subject to criteria and guidelines established by the Governing Council.

Regional programs are funded through regional IPF's allocated by the Governing Council and are designed to organize and support regional development cooperation, especially the productive joint use of resources, institutions and other growth assets. These programs are drafted by UNDP Regional Bureaus at UNDP headquarters and finalized in direct consultation with governments concerned, UN regional commissions and the specialized agencies.

Since 1972, regional programming has steadily grown from \$193.1 million for the first cycle (1972-1976) to an illustrative IPF of \$734.4 million, or 14.7 percent of the \$5 billion total for the third cycle (1982-1986). The methodology for programming has become increasingly more sophisticated. For example, the 1982-86 regional program for Asia and the Pacific was formulated, submitted, and approved with full government participation from start to finish. Fifty-five high-level officials representing 26 countries met in New Delhi in February 1981, to consummate the process.

Inter-regional and global programs are prepared on the basis of special IPF's determined by the Governing Council and concentrate on basic development-related research and the application of innovative development technologies. Such projects often are proposed by UNDP headquarters for approval by the Governing Council in response to worldwide needs identified by global conferences. Since 1972, over a dozen United Nations global conferences have been held and resulted in additional responsibilities being assigned to UNDP. In 1959, UNDP was supporting a single inter-continental project--Desert Locust Control--budgeted at just over \$700,000. By contrast the inter-regional and global IPF's for the second cycle (1977-1981) were \$83.8 million and for the third cycle (1982-1986) are set at just over \$180 million, with priority being given to research projects designed to assure the security and availability of world food stocks on a long term basis.

3. Monitoring and Evaluation

In recent years the importance of evaluation has been discussed throughout the UN system. The JIU has made studies pointing out deficiencies and urging the up-grading of the evaluation process. The UNDP Governing Council has emphasized the importance of evaluation through a number of proposals.

UNDP considers evaluation as an important activity to ensure high standards in technical cooperation. UNDP conducts evaluations at two levels: thematic and individual project.

Thematic Evaluations

Thematic evaluation involves the review of groups of projects in selected substantive subject matter areas. It is intended to distill the practical experience learned at the field level and to examine the factors which influence the success or failure of projects in the selected group. As an indication of the types of matters covered, the following is a list of thematic evaluations completed by UNDP as of December 1982:

Comprehensive Development Planning
Rural Development: Issues and Approaches for Technical Cooperation
Rural Women's Participation in Development
Agriculture Training
Textile Industry
Industrial Research and Service Institutes
New and Renewable Sources of Energy
Rural Co-Operatives
Innovation and Reform in Education
Export Promotion

Project Evaluations

In contrast to the thematic evaluations, an individual project evaluation is supposed to be a critical examination of an ongoing or completed project's design, experience and results. As a management tool it is used to identify and undertake needed corrective measures to improve the effectiveness of a project and contribute to a synthesis of experience of various projects which could assist in formulating and implementing the succeeding country program.

During the field visits made by the Investigative Staff, UNDP officials indicated that there were unique features in UNDP projects which compound evaluation problems, not the least of these being issues of sovereignty and principles codified in the 1970 consensus which states in part:

> "The monitoring of project assistance * * * will normally be carried out at the country level by the Resident Representative.
>
> "Evaluation carried out within the United Nations system of UNDP-assisted activities will only be made with the agreement of the Government concerned. This will be carried out jointly by the Government, UNDP, the United Nations agency concerned and, where appropriate, the executing agent outside the United Nations system.
>
> "Such evaluation will be on a selective basis and restricted to the minimum essential for the improvement

> or follow-up of the projects concerned, for the needs of Governments, and for the improvement of the Programme. With the agreement of the Government concerned, the results will be communicated to the Governing Council for its information."

These "tripartite" reviews (UNDP, government, and executing agent) are the standard UNDP project evaluation procedures. Depending upon the size of the project, its duration, and other special considerations, tripartite reviews are scheduled on different time frames. Of the nine countries visited by the Investigative Staff, it was noted that some were held on an annual basis, some on a 6-month's basis and others "as needed." These reviews attempt to measure the project's progress and outputs against "yardstick" elements in the project design plan. A perusal of tripartite reviews by the Investigative Staff indicates they focus on delays and other project anomalies requiring management decisions. From the documentation, it appeared that these reviews are handled professionally, and there is evidence that some have resulted in needed midcourse corrections. However, the Investigative Staff found no examples of project cancellation as a result of a tripartite review and UNDP officials advised that project cancellation is unusual. As long as a project's objectives are sound and needed, it will not be canceled and every effort will be made to put the project back on track. If cancellation is suggested and/or in other cases of serious problems, UNDP may send a mission of experts/consultants to examine and explore needed modifications and corrections. Tripartite reviews are essentially self-evaluations. The participants--UNDP, Government, and executing agent--are those who planned, funded and are executing the project.

Some Apparent Weaknesses of Tripartite Reviews

According to a UNDP document entitled "Evaluation of Technical Cooperation in UNDP," many tripartite reviews place too much emphasis on delivery of inputs and administrative matters and not enough on the effectiveness and accomplishments of the project. During field visits the Investigative Staff found that some of the Resident Representatives were attempting to overcome these apparent weaknesses by building evaluation elements into the design of some projects. These included but were not limited to scheduling and funding independent experts to evaluate the project at some specified point in the execution of the project.

According to some officials in the UNDP, evaluation is the weakest part of the UN's operation and the term evaluation is frequently confused with monitoring. The UNDP monitors projects during the execution phase by on-site visits and progress reports. On-site visits vary in frequency from project-to-project and country-to-country. In some countries UNDP officials visit projects on a semi-annual basis, in others visits are less frequent. In some countries the Resident Representatives themselves make a point of visiting various UN projects; in others these visits are made by members of his staff. Progress reports are completed semi-annually by the project director and submitted to UNDP. They give a brief summary of actions that have occurred over the previous months and give the current status of the project.

The Investigative Staff was advised that after completion of UNDP projects there is no systematic evaluation to measure their impact or effectiveness. However, according to the 1970 consensus, provisions for investment and other forms of follow-up to UNDP assisted projects are supposed to be, "when necessary," an integral part of the programming process and of the formulation, implementation and evaluation of the projects. The recipient government is primarily responsible for seeing that all means have been taken to ensure effective follow-up. Although no substitute for a post-project independent evaluation, the subsequent investment in UNDP completed projects does give some indication of the value of the project, at least in the eyes of lending institutions. In this regard, UNDP has reported that $5,301.4 million follow-up investment was committed in 1981 to UNDP financed projects. This was 31 percent above the 1980 record and the highest in UNDP history. Most of the investments came from within the countries themselves; others, from the World Bank and public and private institutions. Based on a UNDP sample survey of 130 pre-investment projects carried out between 1977 and 1981, the average ratio of investment to implementation cost was 51 to 1.

This is not meant to imply that UNDP officials are in any manner attempting to substitute follow-up investment statistics for post-project evaluation. In fact, there is recognition among many UNDP officials that follow-up evaluations consisting of other measurements of quality, efficiency, and effectiveness would be valuable in determining impact and would provide models for future projects of various types.

UNDP Efforts to Improve Evaluation Process

The Administrator has taken cognizance of the importance of the whole evaluation process and advised the Governing Council at its 1982 annual session of his intention to consider the establishment of an independent evaluation unit reporting directly to the Governing Council. In general this met with approval of both developing and developed countries. It was generally believed that such a unit would lead to a better understanding of how UNDP resources were used and the degree to which UNDP was meeting its mandate. Some reservations were voiced, including those of the representative of the United States who supported strengthened evaluation but wondered whether the unit should report to the Council. It was his opinion that it should be a cooperative effort between UNDP and the recipient government " * * * in search of the lessons of the past. The Governing Council, however, should pass judgement on implementation of the evaluation process and receive the resulting reports, which could help donors make their budget decisions."

The Administrator has now proposed the creation of a "central evaluation unit" reporting to him to implement improvements in the UNDP evaluation process. This proposal, which was scheduled to be considered by the Governing Council Intersessional Committee of the Whole at its meeting February 9-11, 1983, contains specific proposals to enhance evaluations. These include " * * * clearer instructions, a more vigorous feedback system, strengthening existing project and thematic evaluations, introducing *ex post* evaluations and terminal assessments, and more systematic analysis and use of the results to improve current and future operations and to inform the Governing Council about the effectiveness and impact of the Programme." It is estimated that the cost of the unit when fully operational would be about $1.5 million annually (compared with about $500,000 now spent on central evaluation work).

The current plans may strengthen the evaluation process. However, it does not appear that the proposals will fully satisfy the need for independent project evaluations. Perhaps the Administrator senses there will be such reservations as he also includes in his recent proposal that " * * * the External

Auditors and the Joint Inspection Unit could be requested to provide independent information on the results of the Programme directly to the Council; or the Council may wish to establish its own evaluation unit."

4. Special Funds and Activities

Through the years the UN General Assembly has created separate funds and programs to meet particular development needs and priorities. Some of these augment and supplement the main UNDP mandated activities and have been assigned by the UN General Assembly to the UNDP for supervision. Although separately financed by voluntary contributions, they are integrated into the UNDP organizational structure and report to the UNDP Governing Council. Some of the more significant of these activities are:

United Nations Volunteers (UNV)

The UNV program established in 1970 is fashioned after the U.S. Peace Corps. It provides qualified technical assistance manpower to meet the need for middle-level expertise in development activities. The UNV are generally young professionals assigned under modest conditions of service and pay. They are utilized in both UNDP and UN agency assisted projects, as well as development programs carried out directly by the host governments.

During 1981, the UNV reached the level of 1,000 volunteers serving in 91 separate countries. Twenty-two percent of the volunteers were from 22 industrialized countries and 78 percent were nationals of 57 developing countries. The UNV program is funded by voluntary contributions which amounted to $1.2 million in 1981. The United States contributed $350,000 or 28.22 percent.

United Nations Capital Development Fund (UNCDF)

The purpose of this fund is to provide capital assistance to the least developed countries--assistance not readily available from other sources--to achieve accelerated and sustained growth of their economies. The fund was established to provide assistance for projects requiring less than $5 million--projects which are smaller than those usually funded by the UN banks.

During 1981, UNCDF disbursed nearly $50 million, a 152 percent increase over the previous year. During 1981, a record 164 projects were operational in 39 countries, and resources at the end of 1981 amounted to $171.8 million. During 1981, the United States contributed $2 million to the UNCDF, which represented 6.13 percent of total contributions.

The United Nations Revolving Fund for Natural Resources Exploration (UNRFNRE)

The UNRFNRE helps developing countries finance potentially high-return mineral explorations which they cannot afford on their own and which traditional lending institutions and private sources are unwilling to underwrite because of serious technical and other risks involved. During 1981, prospecting was underway in nine countries for copper, lead, gold, silver, phosphates, etc. This fund now expects to add the search for geothermal potentials to its roster of services. Expenditures in 1981 totaled $4.9 million (up 29 percent from 1980) against contributions of $2.2 million (a 100 percent gain). Although cumulative resources through 1981 total $37.5 million, funding available for new projects for 1982 amounted to only $6.2 million. The United States did not contribute to this fund in 1981.

The Special Measures Fund for Least Developed Countries

This fund, established in 1973, is different from the other special funds mentioned as it is not limited to any specific type of project or economic sector. It is a fund that supplements the IPF's of the least developed countries and is thereby administered and executed within the main UNDP program. Contributions to this fund for the most part come from the Scandanavian countries (the United States is not a contributor).

The balance of funds available at the end of 1981 was $17.3 million.

E. Resources

UNDP is dependent on voluntary contributions to support its activities. The following table shows total voluntary contributions to UNDP and the U.S. payments and percentages for each of the past five years.

Year	Total Voluntary Contributions ($ Millions)	U.S. Contributions ($ Millions)	U.S. Contributions Percent
1978	$593.0	$115.0	19.4
1979	679.5	126.0	18.5
1980	691.8	126.0	18.2
1981	688.7	125.8	18.3
1982	676.0*	127.6	18.9

*UNDP estimate as of July 1, 1982.

Although the U.S. pledge to UNDP for 1982 was $128,186,000, approximately $550,000 has been withheld as the U.S. proportionate share of UNDP activities in Cuba--expenditures which are barred by legislation. Therefore, the U.S. contribution for 1982 is listed in the above table as $127.6 million.

Funding Trends

At its June 1980 session, the UNDP Governing Council was pressured by developing countries to increase the targeted growth rate above the 14 percent which prevailed for the second cycle. However, it was decided that the annual growth target of 14 percent should not be increased but should continue at the same level for the third cycle (1982-1986). Although contributions by governments fell far below the 14 percent growth target and continue to fall, the Governing Council in June 1981, and again in June 1982, reaffirmed the goal of a 14 percent increase in resources. The estimate of $676 million expected in contributions for 1982 is $300 million below the planning figure implicit in the decision to plan on 14 percent growth. At the same time, due to unprecedented fluctuations in exchange rates, UNDP's actual resources in 1981 were reduced by some $90 million, compared with the dollar equivalent at the time of the pledge in November 1980. The cumulative result of these shortfalls has been a reduction by about one-third in anticipated program resources for 1982, with a similar outlook for the remainder of the third cycle.

Impact of Funding Shortfalls

The credibility of the UNDP rests heavily on a system which targets resources on a 5-year basis to enable some 155 developing country recipients to make difficult forward planning decisions;

but, it is entirely dependent for fulfillment upon uncertain annual voluntary contributions--90 percent of which come from 17 industrialized nations. The expanding gap between contributions and expectations is causing stresses within UNDP and between UNDP and the specialized agencies who rely on UNDP for extra funds to support a cadre of professionals ("experts").

The 1977 UNDP "liquidity crisis" gives some indication of systemic problems that are generated when UNDP funding becomes uncertain. At that time UNDP trimmed its programs to overcome a cash-flow problem and to put itself on a firm financial basis. As reported in the Investigative Staff's interim report of April 1982, FAO officials advised that FAO has historically relied heavily on UNDP funding for its technical assistance programs. But in view of the uncertainties disclosed during the 1977 experience, FAO agressively sought other funding--direct voluntary funds and regular budget funds--for technical assistance programs. (UNDP expenditures for FAO executed projects in 1976 totaled $115.2 million but dropped to $88.4 million in 1977. For 1981 they totaled $182.5 million.) It can be anticipated that the current uncertainties will engender similar reactions. One of the UNDP Resident Representatives advised the Investigative Staff that a high ranking officer of one of the executing agencies complained that the latest UNDP financial shortfall had caused his agency to lay off some 400 "experts", some of whom had been 20 years or more in developing countries.

The specialized agencies have their own sectoral responsibilities, i.e., FAO-Agriculture, WHO-Health, UNESCO-Education, etc. They will be expected to serve their own constituencies regardless of UNDP funding problems. Many of them have regular program budgets funded by member assessments and their resource bases tend to be more stable than that of UNDP which relies entirely on voluntary contributions. It can be expected that these agencies will once again increase their efforts to fund their own technical assistance programs to fill UNDP funding gaps. Such trends, if extensive, can subvert the concept of a central funding and coordinating mechanism for technical assistance--the raison d'etre of UNDP.

The DGD in his annual report, September 28, 1982, stated "contributions to UNDP have declined and contributions placed directly at the disposal of the specialized agencies and other organizations in the system have continued to increase, although at a declining rate, with implications for the central funding role of UNDP * * *." (Underlining added for emphasis.)

Seeking Solutions

The Administrator of UNDP and the Governing Council are concerned about the current funding dilemma and are searching for practical solutions. At its last annual meeting, June 1982, the Governing Council established the Intersessional Committee of the Whole with a mandate:

> "To study, in consultation with the Administrator, as a matter of priority, options and recommendations for the longer-term financing of UNDP * * * including such measures as voluntary contributions, replenishment, multi-year pledging, assessed contributions and various combinations of voluntary and assessed measures * * *."

Personnel

The UNDP has advised that as of December 1982 it employed a total of 5,703 persons for its regular program. This figure does not include personnel who are employed by UNFPA or any of the separate funds administered by UNDP. It does include 3,948 local general service staff who work in UNDP's field offices.

The following chart depicts the number of professional level staff employed by UNDP for each of the past five years, their distribution between headquarters and the field, and the number of professionals who were U.S. citizens.

NUMBER OF UNDP PROFESSIONAL EMPLOYEES

Year	Total	HDQS	Field	Percent in Field	U.S. Citizens	Percent U.S. Citizens
1978	554	230	324	58.5	87	15.7
1979	597	253	344	57.6	96	16.1
1980	579	257	322	55.6	88	15.2
1981	617	263	354	57.4	101	16.4
1982	623	255	368	59.1	90	14.4

F. Selected United Nations Development Programs and Projects

During the review, the Investigative Staff visited 47 UNDP projects--44 national and 3 regional projects. These were executed by 13 different agencies or entities as shown in the following chart.

UNDP PROJECTS BY EXECUTING AGENCY

	National	Regional	Total
UNDP/OPE	3		3
UN (DTCD)	4		4
FAO	12	1	13
ILO	4		4
ILO and Government of The Netherlands	1		1
UNIDO	3		3
UNESCO	3	1	4
WHO/PAHO	1		1
WHO and UNIDO	1		1
WHO, USAID and UNICEF	1		1
ICAO	3		3
IBRD	4		4
ITU	2		2
UNFPA	1		1
WMO	1		1
Mekong Committee	—	1	1
TOTAL	44	3	47

The UNDP contribution to the 44 national projects visited totaled $64,692,865. Project funding ranged from a low of $111,442 (for the restoration of art work in the San Francisco Church in Peru) to a high of $6.5 million for the Kulekhani Dam in Nepal. The UNDP contribution to the three regional projects totaled a reported $40 million.

The 47 projects were spread among 16 sectors as shown below:

UNDP PROJECTS VISITED BY SECTOR

	China	Sri Lanka	Nepal	Thailand	Indonesia	Philippines	Brazil	Peru	Colombia	Total
Natural Resources				3	1				1	5
Agriculture	1	1		1	1	1	1	1		7
Forestry			2				1	1		4
Fisheries	1									1
Industry	1	1	1		1		1		1	6
Science and Technology	2									2
Communications	1						1			2
Transportation						1	1	1	2	5
Health		1	1				1	1		4
Water Resources			1							1
Employment				1	1		1			3
Education					1					1
Social Condition					1					1
Culture								2		2
General Development						1				1
Infrastructure		2								2
TOTALs	6	5	5	5	6	3	7	6	4	47

Based on statements made by officials of governments and a majority of UN organizations, UNDP is generally well regarded and respected in these countries. On the surface, the degree of cooperation among these groups appeared satisfactory and, for the most part, UNDP projects seemed to be well planned and executed, with defined goals being achieved. A common feature noticed at the project levels, in all countries, was the enthusiasm and dedication of both the international and national staffs involved. In addition, UNDP's goal of advancing the transfer of technology through fellowships and training appears practical.

UNDP Achievements

The Kulekhani project is the first storage dam project constructed in Nepal. The project was jointly financed by the World Bank, the Kuwait Fund, the Japanese Overseas Economic Cooperation Fund, OPEC, EEC, UNDP, and His Majesty's Government of Nepal. The UNDP input included technical assistance to support construction of the Kulekhani project in field investigation; preparation of detailed designs, specifications, and bidding documents; procurement and supervision of construction; and training for engineering staff. The dam is completed and operating and supplying a constant source of power to the central and western regions of Nepal. Officials of the Nepal Government stated they are extremely pleased with the assistance received from UNDP and consider the Kulekhani to be a major accomplishment.

The objectives of the research in minor export crops in Sri Lanka are to expand and diversify that country's agricultural production and export, and to establish a research institute for minor export crops. This FAO-executed project has been operating since 1973. During the current phase, participants are being trained under a UNDP fellowship program at post-graduate centers in the United States, United Kingdom, Australia, and other countries. The techniques developed at the institute--aimed at improving varieties of minor export crops (cacao, coffee, pepper, etc.)--are made available for use throughout the country. According to UNDP, minor crops have become one of the best export performers in Sri Lanka. It was reported that between 1980 and 1981, the value of such exports increased from $55 million to $80 million, or by 45 percent.

UNDP's assistance to the establishment of a central leather laboratory in China is another example of UNDP success. According to UNDP officials, poor research had contributed to an unsatisfactory quality of finished leather products in Shanghai, a major leather production center. The UNIDO-executed project was designed to establish a chemical analysis and physical testing leather laboratory and to upgrade the level of testing personnel. The laboratory is now established and most of the instruments are in use. Since the project was initiated in 1981, two major accomplishments have been realized: the laboratory has improved the quality of white leather, preventing "yellowing" that had plagued leather products in China, and it has successfully produced water resistant leather of high quality. Notwithstanding these successes, the director of the project acknowledged that much remained to be accomplished and candidly stated that he was not satisfied with the overall quality of leather products.

UNDP has been providing assistance to Thailand in accelerated rubber replanting since 1965. The project's most recent phase, which was started in 1980, was designed to improve the capacity of the Government to manage an increased replanting program and provide for and improve rubber research. According to UNDP and Thai officials, the rubber replanting project has been one of the most successful technical assistance projects in Thailand.

Another UNDP success story is the road motor transportation project in Colombia. The project has been operational since 1971 and is seeking to help Colombia address severe transportation problems. With UNDP assistance, the Government has built seven bus terminals throughout the country and is currently constructing a major one in Bogota to centralize and simplify many of the city's transport operations. The terminal construction project is a highly complex and ambitious plan incorporating not only bus maintenance facilities, but also businesses, and future housing. The project is also helping to introduce computer information systems to more effectively record and monitor traffic violations and vehicle registrations. According to the Mayor of Bogota, the road motor transportation project is afforded the highest priority within his administration and he is most thankful to UNDP for its assistance. He also said that his dealings with UNDP have been and continue to be excellent.

Another impressive project deals with research and development for the Brazilian telecommunications agency (TELEBRAS). The project is designed to promote the growth of the national telecommunication industry to enable it to plan, develop and manufacture equipment locally and to assist in developing quality control activities. UNDP plans to continue to provide TELEBRAS access to selected technologies, technical support for projects at the pre-industrial stage, as well as training in project design and the identification, design and testing of electronic components. The development and expansion of a national communications infrastructure has substantially generated a domestic demand for specific equipment. There is reported to be a favorable climate in the Brazilian manufacturing industry for expanded scientific and technological development efforts in the telecommunication area which this project is designed to afford.

Problems affecting UNDP Projects

UNDP has recognized and is seeking to solve a number of problems which confront it. UNDP internal studies have criticized project design and the institution-building capacity of projects. Project design was found faulty in a number of projects. The UNDP found that on the whole most of the projects reviewed were more successful in providing direct support than in institution building. According to the 1981 UNDP document on evaluation, projects aimed at increasing self-reliance capabilities should place greater emphasis on staff development programs and structured training activities. It also notes that institution building projects should be formulated with the realization that the process may require longer time frames than are currently anticipated. The document notes that a major problem influencing the effectiveness of institutions providing certain services is the lack of sufficient linkages between the institutes and their clients--the users of services.

However, it would be well to recognize that the selection of technical experts sometimes requires a worldwide search of a complicated nature. For example, some developing countries have reached levels of technical expertise far in advance of others, which in turn makes them capable of providing technical assistance. It is, therefore, more complex and difficult to select the expertise required in these more advanced countries because what might be helpful in one country could well be considered unacceptable and wasteful in a more technically developed country. It was stated by the officials of one of these countries that to accept experts who knew less about the technology than they did would be insulting to their country.

Although the UNDP projects visited appeared to be meeting objectives, the Investigative Staff did identify several problems that had a detrimental effect on their execution. The problems include inadequate host government counterpart support, delays in recruiting experts, unrealistic project designs, reluctance to end on-going projects, political influence by host governments and inflation and fluctuating exchange rates--many of which have been recognized and are being confronted by UNDP.

According to UNDP officials, the lack of government counterpart funds is not an uncommon problem of technical assistance projects. The Investigative Staff was informed that efforts have been made to avoid undertaking projects--regardless of merit--if there is evidence that sufficient government support cannot reasonably be expected. To do otherwise would involve a waste of limited UNDP resources.

The lack of adequate counterpart support surfaced in several of the projects visited. For example, in one country, the inability of the government to deliver the necessary housing resulted in UNDP providing $250,000 of training equipment which was stored in a small temporary building. This necessitated that training continue in double shifts because of insufficient space, using simulators which were not the most advanced. Another example of the inability of a host government to deliver pledged support involved people. Because the government had not hired the people promised, the project was unable to use much of the audio-visual equipment which had been supplied by UNDP. The project director estimated he needed 50 more people to use all the equipment on hand. A third example involved failure of the government to provide adequate dormitories for students being trained at a research center. The project director said that the students could not be highly motivated when they were concerned with where they would live.

Delays in hiring experts is another problem identified with UN projects. Some were slow to start because of difficulties in recruiting experts. One watershed management project in an Asian country started 7 months late because of the inability to hire the necessary experts on a timely basis. In another case delays in hiring a WHO expert for a health support project resulted in a 9-month late start. In one Latin American country, a director of a telecommunication research and development project complained of the extended turnaround time from the selection to the arrival of experts. The official said that at times it has taken ITU as long as one year from the time the request was made to the time the expert became available to the telecommunication project.

Continuing high inflation rate in some countries combined with fluctuating exchange rates has made cost-estimating exceedingly difficult and in some cases has resulted in significant cost overruns. One such case deals with a dam project which in 1974 was estimated to cost $68 million, of which $57 million was in foreign exchange. By 1980, partly because of design changes, uncertainties associated with major construction at the project site, and a fluctuating exchange rate for the currency in which the major equipment was purchased, the project cost was estimated to be $116 million, of which $95 million was in foreign currency. UNDP funding of $3 million over a 5-year period by 1980 had increased to $6.1 million or over 100 percent.

The lack of adequate coordination among the different UN agencies was noted at the country level. Whether intentional or otherwise there were delays or avoidance in arriving at effective coordinating agreements among UNDP and the other UN programs and organizations. Contributing to these postponements are the organizational differences of the involved groups. UNDP as a decentralized activity could make binding agreements while specialized agencies, because of their centralized nature, could only give tentative consent until approved by headquarters. Thus, headquarters could and did negate these field efforts by simply failing to respond.

In countries visited there seemed to be needless duplications of administrative and support services by UN organizations. Some of the UN agencies seemed to have a driving desire to obtain separate office space rather than to colocate under one roof. Colocation could contribute to reduced total housing costs and also encourage and facilitate joint administrative and support services of all UN activities within a country. While not the only one, FAO demonstrated the strongest motivation for independence by being at the forefront of setting up separate offices. In one country FAO was constructing its own building across town from UNDP, while the United Nations Children's Fund (UNICEF) was also in process of moving from the UNDP building.

III. UNITED NATIONS CHILDREN'S FUND (UNICEF)--AN EVOLVING PROGRAM

UNICEF was created by the UN in 1946 to provide emergency relief and rehabilitate children who were victims of World War II. The task that began in Europe has since spread throughout the world. UNICEF, as the advocate of all the world's children, today has programs in 112 countries. These programs cover diverse activities such as basic child health, immunization, disease control, infant and child feeding, drinking water supply, sanitation, responsible parenthood, family planning, nutrition, education, emergency aid, and program activities benefiting women.

Prior to UNICEF's creation, the United Nations Relief and Rehabilitation Administration (UNRRA) sought to furnish aid to impoverished children who had been victimized by the war. As UNRRA was coming to an end, its Council recommended that a UN fund be created for continuing aid to needy children throughout the world.

A. Background

Accordingly, the UN General Assembly by Resolution 57(I) in December 1946, established the UN International Children's Emergency Fund to provide emergency relief and rehabilitate children who were victims of the war. Its resources were to come from the residual assets of UNRRA and from voluntary contributions given by governments and individuals.

During the first years of operations, UNICEF's resources were devoted mainly to providing assistance and meeting the emergency needs of children in Europe. From 1946 to 1950, UNICEF provided over $114 million in assistance with approximately 76 percent going to countries in Europe, 11 percent to countries in Asia, 10 percent to countries in the Eastern Mediterranean area and 3 percent to countries in South America. As for the needy children in other parts of the world, UNICEF began giving aid to the children in China in 1948, and later to other Asian countries. In 1949, UNICEF began extending aid to several countries in the Eastern Mediterranean area and in North Africa. UNICEF also began extending aid to countries in Latin America in 1949.

In December 1950, the General Assembly extended the life of UNICEF for three years and directed UNICEF's main emphasis toward programs of long-range benefit to children of developing countries. The General Assembly in October 1953, by Resolution 802(VIII) decided that UNICEF should continue its task indefinitely as the United Nations Children's Fund.

The General Assembly in 1976 proclaimed the year 1979 as the International Year of the Child (IYC) and UNICEF was given the responsibility of coordinating activities which were to be undertaken by every country. A goal of IYC was to create a permanent high level concern for children on the part of government officials and the people. Another was to gain recognition that programs for children should be an integral part of a country's economic and social plan.

In 1979, General Assembly Resolution 34/4 designated UNICEF as the lead agency of the UN system responsible for coordinating the follow-up activities for the International Year of the Child. UNICEF was given the responsibility for making the needs and problems of children known in both developing and industrialized countries.

Organization

UNICEF is a program of the UN but with its own governing body and secretariat. It is governed by the Executive Board which has a regular annual session when it reviews programs, establishes policies, and makes commitments of funds for the projects and other tasks to be undertaken by UNICEF. The reports of the Board are reviewed by the Economic and Social Council and the General Assembly.

UNICEF Executive Board

Since 1956, the Executive Board has consisted of 30 members--from 15 developed and 15 developing countries--elected by the Economic and Social Council for a term of three years. The members were elected from member states of the United Nations or of the specialized agencies with due regard to geographical distribution and representation of the major contributing and recipient countries. However, during the past two years, several of the developing countries have attempted to expand the membership. The Board considered this matter in its May 1981 meeting but deferred a decision to April 16, 1982, when the Executive Board reconsidered and approved the enlargement of its membership from 30 to 41 members. The action was approved by ECOSOC on April 22, 1982, and by the General Assembly on April 28, 1982.

The General Assembly approved Resolution 36/244 which stated in part that the General Assembly was convinced that "* * * a strengthened and expanded United Nations Children's Fund necessitates the increased participation of Member States in the work of the Executive Board of the Fund." The members were elected from Member States of the UN, specialized agencies or of the International Atomic Energy Agency, with distribution as follows:

-- Nine seats for African States.

-- Nine seats for Asian States.

-- Four seats for East European States.

-- Six seats for Latin American States.

-- Twelve seats for West European and other States.

-- One seat to be rotated among the five regional groups, in the following order; African States, Latin American States, Asian States, West European and other States and East European States.

The members are elected for a term of three years and retiring members are eligible for re-election. The General Assembly requested that the election take place at the first regular session of ECOSOC in 1982. On May 6, 1982, ECOSOC elected 21 members to the Board which included the 11 new members and brought the total to 41. The United States was re-elected for a term of office expiring on July 31, 1985.

The secretariat of UNICEF is headed by an Executive Director who is appointed by the Secretary-General in consultation with the Executive Board. The Executive Director, an American, has been in office since January 1980.

B. Present Status of UNICEF

UNICEF has evolved into a voluntary development fund which advocates and assists in the humanitarian development and welfare of needy children throughout the world. Through their field Representatives and staffs they cooperate with government officials by assisting in planning, implementing and extending services which fulfill the basic needs of children and their mothers in developing countries. It also provides funds for the training of national personnel and delivers technical supplies, equipment and other aid.

1. Source of Funding

UNICEF is financed by voluntary contributions from governments, organizations and individuals. Most of their income comes from governments as contributions to the general resources of UNICEF; however, governments also make contributions for specific purposes, emergency relief, and rehabilitation.

General resources include funds from voluntary contributions from governments, net income from the greeting card operations, and proceeds of unearmarked funds contributed by the public. Specific purpose resources come from governments over and above their regular annual contributions to the general resources and also from contributions made by nongovernmental organizations and by UN agencies which are earmarked for particular projects or emergency aid and rehabilitation.

For many years ten countries, including the United States, have accounted for approximately 90 percent of government contributions. The UN General Assembly has called for a more equitable distribution. UNICEF's Executive Board also has appealed to all governments to increase their contributions, especially those governments who are not contributing in relation to their financial capacity.

UNICEF also depends on individuals and organziations as essential sources of income. UNICEF's greeting card operation is a significant source of income as are individual contributions, proceeds from benefits, and grants from organizations. Many of these fund raising efforts are sponsored by 33 National Committees which have been organized in developed countries to generate a better understanding of the needs of children in developing countries.

UNICEF has also developed a close relationship with international nongovernment organizations whose interests relate to the well-being of children. Many of these organizations--professional, religious, business, trade and labor--are strong supporters of UNICEF and participate in raising funds and assist in some programs.

2. UNICEF Strategies as Advocate of Needy Children

UNICEF has sought to focus the world's attention on the critical and basic needs of poor children and mothers in developing countries and to devise different ways of meeting these needs. UNICEF over the years has used various approaches and strategies in trying to improve methods to fulfill its important role.

One of the main approaches used by UNICEF in developing countries is the "basic services" strategy approved by the UN General Assembly. Emphasis is placed on meeting the basic needs of children through community involvement. UNICEF assists governments in planning, developing and extending low cost community-based services in the fields of health, water and sanitation, nutrition, formal and non-formal education, responsible parenthood and supporting services for women and girls. It provides supplies, equipment, and other aid to implement these services and also participates in the training of national personnel.

Its role, therefore, is to help the community identify the needs and problems of children and then plan to alleviate as many of these needs as possible. These efforts seek social and economic improvements in low-income rural communities by encouraging people participation at the village level. UNICEF reported that in 1981, it had achieved the following results:

- Equipped some 43,000 health centers, and 88,000 primary schools.
- Trained more than 90,000 teachers, 115,000 health workers, and over half a million village-level nutrition workers.
- Expanded nutrition programs in over 130,000 villages.
- Cooperated in the installation of almost 100,000 water supply systems and over a quarter of a million sanitary latrines.

Changing UNICEF Priorities

For years there had been a tendency to give higher priority to the needs and problems of the rural poor because much of the needs of developing countries were predominantly rural. However in 1971, UNICEF began to focus on problems and needs of children in urban slums because two-thirds of the annual population increase in developing countries is taking place in urban areas. There is a general migration to the cities of developing countries in search of jobs, better economic opportunities and superior schools. In recent years UNICEF has substantially increased its support for urban projects from seven countries in 1977 to 43 countries in 1982. UNICEF's aid to these urban projects has taken the form of support for mobilizing communities to identify their own problems and organizing their own external resources to solve these problems. UNICEF assists also in furnishing supplies and equipment for schools, day-care and women's centers and making cash grants for self-help activities.

The Executive Board of UNICEF at the May 1982 session approved an urban program strategy which is an integrated approach to the problems of urban children and women. Programs are to include the following priority areas: malnutrition, women's development activities, preschool day-care and early childhood development, responsible parenthood and family planning services, abandoned and disabled children, and water and sanitation. UNICEF support is designed to emphasize women's literacy, income generating activities, and day-care and pre-school programs.

UNICEF Medium-Term-Work-Plan

The Executive Board of UNICEF at the May 1982 session also approved UNICEF objectives for 1982-1985 as defined in the Medium-Term-Work Plan for the Period 1981-1985. These objectives are considered as UNICEF goals of the International Development Strategy for the 1980's and beyond, which were adopted by the UN General Assembly in December 1980. They seek to eradicate mass illiteracy and insure universal access to primary education, alleviate hunger and malnutrition, and reduce infant mortality rates to 50 or less per 1,000 children by the year 2000.

The Medium-Term-Work Plan focuses its efforts on the most disadvantaged children in countries severely affected by economic recession, particularly Africa. In such areas UNICEF promotes infant and child feeding, child immunization, provision of essential drugs, diarrhaeal diseases control, women's functional literacy and the education of girls. Emphasis is placed on promoting policies and programs that would result in more benefits for children at lesser cost. UNICEF supports activities encouraging primary health care orientation in services outside the health sector, such as education, agricultural extension services and rural development.

UNICEF is involved not only in giving long-range assistance to needy children and women in the world but also in furnishing aid in emergency situations. UNICEF's experience, field offices and personnel, along with their logistic capabilities, enable them to act in these types of situations.

UNICEF served as the lead UN agency from October 1979 to December 1981 in the humanitarian assistance program for the Kampuchean people. The program was considered successful in restoring the basic conditions for survival. UNICEF also furnished emergency assistance in 1981/1982 to 14 African countries whose millions of children and mothers were in crisis conditions resulting from drought or conflict, or a combination of both.

3. UNICEF's Relations with Governments, UN Agencies and Other Agencies and Organizations

UNICEF cooperates with governments only after consultation and with their consent, and is ready to support the best possible plan for assisting and improving the situation of children. The country program is administered by the government and is the responsibility of that government or any agency or organization thereof. The country program represents the total activities and services related to children.

UNICEF helps identify the needs of children and plans a country program for meeting those needs. Once ministers of the host government and UNICEF have agreed on a country program and implementing projects, UNICEF determines what material aid it can provide. UNICEF provides a wide variety of supplies and equipment ranging from special foods for emergency and supplementary child-feeding programs, classroom equipment and medicines for health clinics, to pipes and pumps for bringing clean water to a community. UNICEF also provides funds for training personnel to work with children such as teachers, social workers, community leaders, nutritionists, health and sanitation workers.

Country programs are designed to promote participation at the community level and thus stimulate self-reliance. The community becomes involved in decisionmaking and planning in the hope that projects will continue on after UNICEF is no longer involved. Thus, country programs are structured to encourage eventual assumption of full responsibility for projects.

4. UNICEF's Relations with UN Agencies and Bilateral Aid Agencies

UNICEF relates to other UN system agencies in matters relating to programs which affect the status of needy children and women. UNICEF believes that the impact of programs and projects can be maximized when a combination of financial resources, and technical and operational skills are applied to their design and implementation. Collaboration among the UN system agencies includes sharing of experts in developing country programs and exchanging experiences.

In establishing its policies for cooperation in country programs, UNICEF benefits from the technical advice of UN specialized agencies. Although UNICEF stated it seeks to avoid duplicating services provided by other agencies, there is little question that such duplication does exist. Many of the people interviewed in the countries visited warned that insufficient coordination can lead to waste. Contrary to UNICEF stated policies, there was evidence that the field operation was not always striving for effective coordination with UNDP, the focal point for coordinating technical development.

An example of one instance where the lack of coordination resulted in duplication was found by the Investigative Staff. In one country, two agencies involved in similar projects were unaware that the other was so involved. An FAO-executed community forestry development project and a UNICEF small farm development project were both involved in the dissemination and installation of clay smokeless stoves in rural homes. Initially, neither FAO nor UNICEF was aware that the other was involved in the same endeavor. It does illustrate the lack of coordination that so easily can plague UN activities, and which could result in unnecessary expenditures.

Memorandum of Understanding

In January 1979, UNICEF, UNDP and UNFPA signed a Memorandum of Understanding which established the basis for better cooperation among these agencies with the objective of increasing program effectiveness. The agreement seeks to strengthen their coordination in program and project planning, funding, implementation and evaluation.

The UNDP Resident Representative and representatives of UNICEF and UNFPA are to meet on a regular basis to identify areas of mutual interest as well as to keep each other informed of respective activities in program development and implementation. In spite of this agreement, the Investigative Staff found little evidence in the countries visited that these informational exchanges were taking place. On the contrary, in some of these countries the opposite seemed to be happening--UNICEF moving out of the UNDP building, thereby increasing the separation; and some UNDP field staff complaining that they were not being kept informed of UNICEF plans.

Late in 1981, these same agencies formed a tripartite policy group in New York City called the Joint Consultative Group on Policy whose purpose was to identify ways of improving policy and program coordination among themselves. A successful effort by this group could result in improved operations and better understanding, but it is too early to make an assessment.

The Executive Director of UNICEF, at the global meeting of UNDP Resident Representatives in July 1980, stated he was convinced that there was room for further strengthening of cooperation between UNICEF and UNDP especially at the country level. He also stated that both UNICEF and UNDP " * * * must recognize on the one hand, the advantages of and need for better co-ordination and, on the other, that: (a) UNICEF has primary responsibility for programming its own resources; (b) the UNICEF Representative has direct access to the Executive Director; and (c) the UNICEF Representative maintains the present contacts and relations with the functional ministries with which UNICEF co-operates."

5. UNICEF Relations with Non-Governmental Organizations

UNICEF has always worked with and has developed a relationship with non-governmental organizations whose efforts are concerned with problems of children. Many of these organizations are involved in fields of interest to UNICEF, such as nutrition, water supply and sanitation, primary health care, family self-reliance, women's activities and non-formal education. UNICEF encourages these organizations to use their resources to complement programs and projects in which UNICEF is involved.

C. UNICEF Resources

To carry out its responsibilities UNICEF had an income of $291 million for 1981, including the amount of $23 million which it received for the Kampuchean relief operation. This represented an increase of $9 million over 1980 or about 4 percent. UNICEF's income is derived from voluntary contributions from governments, organizations and individuals. The income for general resources which comes mainly from government contributions was $218 million. Governments also may make contributions for specific purposes. The U.S. contribution was $35,979,700 for general resources and $6,379,100 for specific purposes. The nongovernment contributions from the United States totaled $11,344,000. UNICEF's income for 1982 is expected to approximate $375 million with $242 million from general resources and $133 million from all other sources.

Expenditures in 1981 amounted to $292 million and these expenditures consisted of: $126 million for supplies and equipment; $65 million for non-supply assistance, such as training grants, project personnel and local costs; $45 million for program support; $29 million for administrative services; and $27 million for the Kampuchean operation of which amount $22 million was for supplies and equipment. Total estimated expenditures for 1982 are approximately $287 million; $227 million from general resources and $60 million from all other expenditures.

The United States pledged a contribution of $41.5 million in 1982 and paid approximately $41,443,000. The remaining

$57,000 was withheld because it represented the U.S. portion for the UNICEF program in Cuba. Starting with the 1982-1983 biennium, UNICEF adopted a biennial budget cycle with annual revisions. Previous to this change, UNICEF had four separate annual budgets for program support, administrative services, greeting card operations and the Copenhagen Packing and Assembly Centre (UNIPAC).

To facilitate the acquiring and expediting of supplies and equipment to various parts of the world, UNICEF maintains a packing and assembly center in Copenhagen, Denmark. In addition to serving UNICEF, it offers procurement services on a reimbursable basis to other UN system agencies, and over 100 governments and nongovernment organizations. At the May 1981 session, UNICEF Executive Board accepted an offer from the Government of Denmark for new facilities for UNIPAC in Copenhagen. All procurement, except for North America would be handled in Copenhagen; however, the Office of Director of the Supply Division would remain in New York City. UNICEF estimated that these changes could result in savings of $3 million over a biennial budget period and shorten the average delivery time of supplies and equipment. Because no documentation was provided to indicate the basis of these projections, the Investigative Staff cannot assess the reasonableness of these estimated benefits and savings. However, there is a question as to how much the United States may lose as a result of this move.

In 1982, UNICEF maintained 66 field offices, including 6 regional offices that serve both as a coordinating point for their region and as a country programming office. In addition to these offices, UNICEF maintains numerous sub-offices which are staffed mostly by local personnel who make regular visits to projects, some of which are a great distance away from a field office. These offices participate in programming activities in 112 countries. UNICEF has its main headquarters in New York City, a headquarters office for Europe in Geneva, Switzerland, and a supply office in Copenhagen, Denmark.

UNICEF's main organizational trend over the past 25 years has been towards decentralization. This is illustrated by the number of UNICEF offices located throughout the world and by the distribution of staff members, international professionals, national officers and general services, located at headquarters and in the field. According to UNICEF, 39 percent of all staff members in 1955 were located in the field compared to 82 percent in 1982. The remaining 18 percent are located at the headquarters' offices in New York City and Geneva, Switzerland. Of the total 2,939 UNICEF established posts in 1982, there were 535 posts at the headquarters offices and 2,404 in the field. According to figures made available by the State Department, UNICEF employed 2,914 staff members as of December 31, 1982. Of the total of 397 professional staff members there were 78 U.S. citizens (19.6 percent) and of the 2,517 other staff members there were 188 U.S. citizens (7.5 percent).

D. Selected UNICEF Country Programs and Projects

The Investigative Staff, during its review of UNDP country programs and projects in nine countries, spoke with UNICEF Representatives and visited 14 UNICEF projects in the following fields of assistance:

Field of Assistance	Number of Projects
Child Health	4
Water and Sanitation	3
Child Nutrition	2
Social Welfare Services	4
Non-Formal Education	1

The Staff observed that many projects, although designated as being concerned with one specific field of assistance, were also involved in other related fields. As an example, one of the projects in which UNICEF was collaborating with WHO, while primarily concerned with child health, was also providing assistance in the fields of nutrition, water supply and sanitation, nonformal education and social welfare services. The people of the village in which the project was located were involved in all aspects of this endeavor. Their enthusiastic comments revealed that they were proud of their involvement and were planning to continue in trying to assist other small villages having the same needs.

1. UNICEF's Relations With Host Countries

The Investigative Staff had the occasion to meet with various ministries of host countries which coordinate UNICEF programs and projects. In general, they spoke favorably of UNICEF efforts and accomplishments in their countries. UNICEF representatives are cognizant of problems arising in countries with poor infrastructure, weak administration and inadequate logistical support systems. In the countries visited, the Investigative Staff found no indication of major difficulties between country officials and UNICEF representatives.

After ministry officials and UNICEF have agreed to the country program, the proposal and recommendations are finalized by UNICEF and submitted to headquarters for approval. A country program profile for each country requesting assistance is presented to the Executive Board session. This profile includes basic country data, current and past program cooperation, as well as other information. The Executive Director's recommendation is reviewed by the Program Committee and its recommendation is given to the Executive Board usually in a "short form" recommendation. The Executive Board approves a commitment from general resources and notes what should be supported through specific purpose contributions. In approving a country program, efforts are made to relate the program recommendations with the government's national plan.

2. Problems Encountered in Implementing Country Programs

Implementation of a country program begins after receiving program approval from the Executive Board. Various obstacles may impede the implementation of UNICEF assisted programs and projects. A paper was submitted to the Executive Board at the 1979 session which provided a prior year overview. Some of the problems identified were linked to country situations and others to internal UNICEF operations. The main difficulties and constraints which affected country program implementation were noted as follows:

-- Inadequate logistic systems in some countries sometimes delayed assistance by late delivery of supplies and equipment.

-- Frequent turnover of program and ministerial staff.

- -- Overly centralized decisionmaking which delayed timely assignment of support personnel.
- -- In some instances, competition among ministries could result in overlapping programs.
- -- Low availability of manpower with planning and administrative skills required for development work.
- -- In some cases, inadequate surveys and poor designs plus careless construction work hampered timely delivery of safe water and produced maintenance problems.
- -- Political instability in certain countries.

3. Monitoring UNICEF Programs and Projects

While removal of many of these obstacles is primarily a host government responsibility, UNICEF has endeavored to assist governments by monitoring of the program implementation, improving design of new programs, increasing local procurement, involving nongovernment organizations and improving UNICEF program support.

Discussions with UNICEF staff, government officials and project personnel revealed that projects visited by the Staff are being monitored by UNICEF and the government. One host country official advised that he was aware that problems could arise in implementing projects, but that by regularly monitoring the projects, corrective action could be taken promptly. Problems are often caused by the government's inability to supply technical personnel for a specific project. UNICEF reported that host country officials and UNICEF representatives are working together in an attempt to minimize this problem.

UNICEF officials are aware of the importance of strengthening the monitoring and evaluation process. During the past year UNICEF has supported studies, surveys, field research and project evaluations undertaken by government agencies or other institutions. Generally, these evaluations have emphasized the improvement of program formulation through more field research, studies, and information collection. Studies have included evaluations of existing programs or projects with the aim of improving future program performance by applying past program achievements.

UNICEF officials have also sought to improve the monitoring systems and procedures at the country level. Annual review of programs by government ministries and UNICEF representatives are used to monitor performance. The need for improvement in the systematic planning of monitoring and evaluation activities, and in the procedures for the collection, storage, retrieval and use of information obtained from evaluation of projects is recognized by UNICEF. Efforts are continuing to upgrade procedures and staff skills at the country level. In addition, UNICEF is trying to promote a closer cooperation with host countries. Monitoring and evaluation are handled in several ways by UNICEF. This includes weekly status meetings, monthly meetings with experts to review and update the project and yearly seminars which examine broad problem areas in which UNICEF is involved. They review socioeconomic profiles of recipients at two different points in time to measure the impact of their work.

4. UNICEF's Role as a Development Agency

UNICEF's role in relation to various departments and representatives of governments is that of a development agency with a mandate to strengthen national capacity for improving the welfare of children. In some countries UNICEF is not seen in a development role but is still considered as a supply organization which provides material support and replacement supplies to maintain and upgrade some existing services. However, in many countries UNICEF's role as a development agency working with governments on behalf of children and women has been fully accepted and encouraged.

UNICEF has developed programming based on a services strategy for meeting children's needs in which community participation, appropriate technology and a multisectoral approach to addressing needs are critical factors in obtaining improvements in children's lives. The services approach perceives social and economic improvement in rural and urban communities as coming from activities undertaken within the communities. UNICEF works on focusing the attention of governments on the needs of children in an effort to obtain greater national priority for services that will benefit the needs of children in that country.

It was apparent to the Staff during visits to UNICEF projects and discussions with UNICEF Representatives and UN agency officials that UNICEF was proudly advocating developmental activities. Several individuals of other UN agencies were of the opinion that UNICEF's goals might be too broad and this could adversely affect their primary mission of furnishing aid to needy children and mothers. Projects appeared broadly based but were designed ultimately to benefit children and mothers.

In one country, the host government had flatly stated they were not interested in supplies and equipment but only in obtaining technical assistance. As a result the UNICEF budget in that country primarily provides for people--a staff of 17 professionals that work with five different ministries seeking to meet government goals. Previous support by UNICEF in this country during the late 1970's was mainly in the form of supplies and equipment. A joint review led to a high level technical assistance approach and funds were committed to new activities in identifying and assessing problems of children. Discussions with the government resulted in a proposal regarding technical support and cooperation on social studies aimed at measuring the gap between needs and existing means. Cooperation mainly took the form of staff support, including local recruitment of consultants; deployment of project staff; cash support for the translation, publication and distribution of documentation; support for working groups and conferences; and financial support for action oriented studies. In 1982, the government requested UNICEF to continue its program of technical cooperation in services for children which will help to consolidate progress on existing activities.

IV. U.S. GOVERNMENT OVERSIGHT

The State Department is responsible for planning, coordinating, and implementing U.S. policy concerning the United Nations system, including its specialized agencies and other programs. Within the State Department these tasks have been assigned to the Bureau of International Organization Affairs (IO). IO has the lead responsibility in developing U.S. positions on all matters concerning the administration, structure, budget, and foreign policy issues dealt with in these organizations, and in coordinating or contributing to the preparation of positions on operational or technical matters.

The U.S. interacts with UNDP and other UN organizations on various levels. Official U.S. representatives and delegates participate as members of governing bodies and legislative councils to which the United States belongs. At the headquarters level U.S. Mission and Embassy personnel interact with UN secretariat and UN program officers. There are opportunities at all levels to maximize the harmonization of U.S. bilateral and multilateral foreign policy goals and objectives. However, success is dependent upon a recognition that U.S. foreign policy objectives can be better realized by mutually supportive positions in both multilateral and bilateral foreign policy initiatives; and upon the effectiveness with which information is collected, communicated and synthesized into a consistent policy.

In general, the organizational structure within the State Department complicates any attempt to achieve the ideal. In the case of UNDP, the USUN Mission in New York, headed by the U.S. Ambassador to the UN, a cabinet officer and spokesperson for the United States in UN forums, has responsibility for the day-to-day liaison with the UNDP Secretariat. Yet, according to State Department documents, policy formulation and direction comes within the purview of IO, headed by an Assistant Secretary of State who is not a cabinet rank officer. In the case of UN system agencies and organizations with headquarters in foreign capitals, the reporting channels from foreign U.S. Missions is direct to IO in Washington, not to the UN Representative in New York, although copies of pertinent communications are sent to USUN for information.

Many of the foreign based UN entities are executing agents of the UNDP and their policies and activities have a ripple effect on the UNDP and, in a larger sense, the UN itself. Therefore, it is important that any reporting system pertaining to UN agency activities in the field take into account the timely needs of both IO and USUN, as well as other U.S. Missions.

A. Lack of Adequate Information

Success in achieving much needed improvements in the State Department is, in a large measure, closely integrated with and dependent upon good communication and adequate information, which do not exist presently in the State Department. In particular there appears to be frequent and bothersome communication breakdowns between the IO and USUN which have not been addressed or remedied. Further, part of the difficulty may be due to the anomalies of the State Department organization that in essence expects a Cabinet Officer in USUN to report to the head of IO who is a non-cabinet rank Assistant Secretary.

Plans for IO Information System Not Approved

The 1982 Investigative Staff Interim Report acknowledged that the IO had belatedly taken steps to improve its filing system. The report commented that this was a first step needed to correct existing data system deficiencies. The Deputy Assistant Secretary for International Management and Budgetary Analysis in a memorandum on "Contract Proposal for an Automated Information Index" stated in part:

> "With the proliferation and complexity of international programs and issues, the Department has a continuing need for integrating, consolidating, restructuring, analyzing and reporting the mass of data it receives on the UN system as expeditiously as possible. In the Bureau [IO] today, both incoming and file copies of outgoing documents, tend to be scattered among the working files of individual officers, often requiring undue labor and time (and sometimes luck) before they can be ferreted out and the data they contain pulled together to be used effectively for policy analysis, instructions for delegations, speeches, reports and justifications."

The proposed index was intended to permit users to:

-- Prepare well-supported position papers.

-- Evaluate performance of the international organizations' activities, and/or programs, and the utility of resources dedicated to those undertakings.

-- Provide missions and U.S. delegations to international organizations with position papers and guidance on operational and political issues.

-- Identify data gaps in the information data system.

-- Justify multilateral assistance in quantitative terms to assist public and Congressional understanding of complex issues.

-- Make timely and well-informed recommendations on the programs of international organizations.

Unfortunately, data weaknesses and needs identified more than a year ago still remain. The Investigative Staff was informed that higher echelons did not approve the proposed contract to revise the data system to handle an increasing volume of data. As a consequence, uncoordinated manual systems continue to exist. While an automated system may not necessarily solve State Department information problems, manually obtaining information at the State Department remains a time consuming task. In cases of information requested by the Investigative Staff, some information was delayed for months; some was incomplete and/or unresponsive. By comparison, the Investigative Staff found that most UN orgnizations, in particular UNDP, were able and willing to provide timely and responsive information.

Combined Economic Reporting Program (CERP)

The CERP is the mechanism used by the State Department and USAID to obtain information concerning UN development assistance programs at the country level. The Investigative Staff was told that, as originally designed, reports under this program were submitted annually to establish informed U.S. positions for U.S. delegations to the UNDP Governing Council.

However, as currently implemented they are no longer synchronized with the meetings of the UNDP Governing Council. They are now submitted on a biennial basis with due dates on either April 1 or October 1 of alternating years. The Investigative Staff was advised that the change was made as an economy measure but it may also reflect a general lack of enthusiasm for this program--an attitude which was prevalent among U.S. foreign service and USAID personnel contacted during the Staff's country visits.

Implementation and Analysis

IO issued comprehensive instructions in April 1981 which called upon reporting posts to include information concerning all UN development activities in the CERP submission with an emphasis on UNDP. Among the general categories to be covered were:

- The importance of the UN system's development assistance contribution to the host country's overall efforts.
- UN system development performance.
- UN agencies' implementation, and evaluation procedures.
- Coordination and related functions of the UNDP Resident Representative.
- Benefits deriving from U. S. support for UN development activities.
- Potential problems.

In May 1982, IO program officers made an analysis of 50 CERP reports submitted since April 1981. The following are some of the pertinent summary observations that were made:

- In most cases (36 reports), the reports " * * * were prepared by Embassy staff (usually an economic officer) rather than the AID mission. Although AID is represented in 23 of the reporting posts, in 11 cases AID staff played very little--if any--role in the preparation * * *. It might * * * be surmised that some AID missions as well as some embassies may not be as conversant with local UN/UNDP development activities as might normally be assumed."
- "The 50 reports differed greatly in analysis and comprehensiveness. * * * Nearly one-quarter of all reports overlooked the revised * * * format or left so many questions unanswered as to limit reporting effectiveness."
- "It seems reasonable to infer that the quality of reporting was directly proportional to the importance (or lack of importance) which the Embassy/AID Mission attributed to the local UN presence."

Some of the IO staff involved with the CERP were unsure of its ultimate value or use to IO, USAID, or other State Department entities. Inquiries by the Investigative Staff determined only that CERP's were used to prepare "position papers" for responses to official inquiries, for budget justification and for official delegations to UN deliberative bodies. But under the current biennial format the CERP usually does not provide up-to-date information, and separate inquiries may be necessary to make current analyses.

Not A Priority in U.S. Foreign Missions

U.S. Embassy and AID personnel contacted during the Staff's country visits had, with very few exceptions, very limited knowledge of the CERP program. Those who were acquainted with it were those who had been called upon to prepare the report in the past but had no continuing interest. Although those contacted expressed a general interest in UNDP activities, none had ever visited a UNDP project and their knowledge was generally limited to the broadest generalities. Some officials contacted expressed a desire to know more about the UNDP activities but none envisioned that the U.S. Embassy or the USAID Mission had any greater responsibility or continuing interest than responding to the CERP requirement on a biennial basis. Many of the officials advised that the UNDP development efforts in their particular country were relatively small compared to U.S. and other bilateral programs, and therefore, additional liaison efforts with UNDP, although perhaps desirable, were not of a sufficiently high priority to justify the expense.

There are other indications of a general apathy about UN development activities. The Investigative Staff found that in one country the last CERP was prepared by a summer intern. In another country a UNDP official advised that on a recent occasion two "junior" Embassy staff members came to him with a series of questions concerning UNDP activities. He found that he had to explain the questions to the staff members so that his answers would "make sense." In another country a UNDP official commented that, prior to the last UNDP Governing Council meeting in June 1982, only two donor country representatives contacted his office in regard to current UNDP programs. These representatives of the United States and Germany both called on the telephone, but neither was interested in a personal visit.

UNDP officials contacted during the Staff visits indicated they would welcome a closer involvement by the donor countries, including the United States, in the overall development activities. They generally agreed that none of the donor countries do a very good job of monitoring UNDP field activities. In this regard, the Administrator recently suggested that "More donor Governments might wish to secure their own periodic assessments of UNDP's work at the field level in developing countries, subject to the consent of their Governments * * *."

The lack of accurate data from the original source raises a question of the soundness of information used for decision-making by U.S. Missions, IO and the other levels of the State Department. Strangely, the USUN was the only one to complain that the information flow was defective and that frequently positions had to be taken in the United Nations on fragmentary information. To overcome the inadequacy of State Department information, U.S. representatives resort to personal contacts with each other in an effort to present a common front.

U.S. Citizens Employed by UN Agencies Abroad

The Investigative Staff met many U.S. citizens who were employed by UNDP, other UN organizations, and the specialized agencies. Many were "experts" working on UNDP projects being executed by one of the specialized agencies. They all seemed dismayed that they are totally ignored by U.S. Embassy personnel. Some of these citizens had been in residence for several years and were in positions of responsibility. They saw their tasks as being compatible with the general aims and purposes of the U.S. Government and they felt that some official contact, no matter how casual, could be of material benefit to the U.S. Government and their individual projects. If nothing else, it would demonstrate that the U.S. Government is interested in getting the best people possible involved in U.N. projects in which the U.S. Government has a sizeable financial share and it might also be helpful in coordinating the U.S. multilateral and bilateral efforts at the grass roots level.

Some U.S. Embassy personnel commented that they have no established program to contact these citizens; they often don't know of their existence; and they see no need to make such contacts. Some referred to the international status of these employees and that special contacts might be misconstrued as exerting undue U.S. influence.

B. USAID Role Not Clearly Defined

Although IO is the bureau within the State Department responsible for policy formulation concerning UN activity, there are indications that programmatic responsibilities for U.S. oversight of UNDP activities at headquarters and in the field have not been clearly defined and/or assigned. Funds for voluntary U.S. contributions to UN development activities are part of the USAID budget and USAID staff members are involved to some degree in the CERP program and in the preparation of country "position papers." But, USAID is primarily involved in, and closely identified with, U.S. bilateral assistance and the organizational relationship and/or division of authority between IO and USAID regarding multilateral development activities is not readily apparent and not well published.

The fact that the U.S. delegation to the last UNDP Governing Council, June 1982, was headed by the Deputy Administrator for USAID, instead of an official more closely identified with U.S. multilateral development activities, raises questions concerning USAID's role relative to IO in UN development activities. Other questions were raised at the field level. In those countries visited by the Investigative Staff where there was a USAID Mission, the Staff was invariably referred by the other U.S. Embassy officials to the USAID Mission for briefings and responses to questions about UN development programs. Yet, there was little indication of any real interest or responsibility by USAID in UNDP or in other UN development programs. In one country visited, the USAID Mission Director had no knowledge of the CERP program and was not familiar with the Bureau of International Organization Affairs as a State Department entity or its responsibilities for multilateral affairs including development programs. These ambiguities may be indicative of a situation where the programmatic responsibilities for U.S. oversight of UNDP activities at headquarters and in the field have not been clearly defined and/or assigned.

U.S. Stewardship

One experienced U.S. State Department official who has had a number of years experience in multilateral affairs advised there is no doubt that under existing policy the IO Bureau is responsible for justifying and supporting U.S. contributions to UN organizations and seeing how they are spent. He advised that in the name of economy a number of basic efforts have fallen short. The IO staff responsible for the programs, UNDP for example, in most cases have never seen a UN field operation or project. This official believed that at a minimum the CERP should be up-graded and submitted annually as it once was. In addition, there should be visitations by IO program officers to UN projects at the country level--not only to enhance the knowledge of the IO staff but also to demonstrate to State Department and UN personnel alike the concern for appropriate and efficient program implementation. In his opinion, such visits and an up-graded annual CERP, together with better efforts to keep Congress informed of UN development activities, constitute the minimum requirements for the U.S. State Department to meet its stewardship obligations.

C. High Personnel Turnover

There have been no changes since the last Investigative Staff report to indicate that assignments to multilateral activities are considered anymore rewarding or beneficial to career development. To the contrary, many of the people contacted stated that it was not career enhancing and, as a matter of fact, some referred to such assignments as dead-end. Whether these disadvantages to career development are real or imagined, it nonetheless becomes difficult to attract the type of experienced career officers essential to the effective performance of complex multilateral matters.

The rotation policy that assigns foreign service officers to the IO for two years, with staff assistants who serve for only one year, precludes the depth of understanding necessary to deal on a sound basis with the international organizations. There has been a strong criticism from some key officials that staff selected to represent the United States at many of the UN organizations are too inexperienced to deal with representatives from other countries who usually are career people with years of association with the same organizations. There is no evidence that the following conditions, which were previously reported and which illustrate the lack of tenure on the part of top management and program officers, have improved:

-- From 1971 to 1982 there have been nine separate Assistant Secretaries in the Bureau of International Organization Affairs whose responsibilities include all aspects of complex and highly diversified UN system programs. During this same period of time there have been some 10 Deputy Assistant Secretaries or equivalent.

-- There have also been a high number of changes in program officers dealing with the Specialized Agencies of the UN. For example, from 1971 to 1982, the Investigative Staff Interim Report showed that there had been seven in UNESCO; six in FAO; six in ILO; and five in WHO.

In seeking a solution to the personnel problems, the 1977 report of the Senate Committee on Government Operations pertaining to "U.S. Participation in International Organizations" recognized and suggested the development of a separate career ladder for specialists in multilateral affairs.

The Representative of United States to the United Nations in her testimony before the Subcommittee on Foreign Operations referred to the large turnover of top management and other officials as "personnel turbulence."

On the other hand, the former Acting Assistant Secretary of State, Bureau of International Affairs at the 1983 hearings before the Subcommittee on the Departments of Commerce, Justice, and State, The Judiciary and Related Agencies, while agreeing that the turnover rate in assistant secretaries had been high, maintained that it was something over which they did not have much control. He also stated:

> "There are a number of different organizations, assignment to which or assignment to take care of which are considered in varying degrees of desirability. What I am trying to say, though, is that there are assignments within the International Organizations Bureau and system which are considered very desirable for career purposes."

Information obtained by the Investigative Staff since the Interim Report failed to disclose any concrete evidence to support the position that such assignments were considered "very desirable for career purposes." It could not be determined who held these views because most who were willing to comment did not believe that multilateral experience added to their career development.

D. Present IO Goals

The present Assistant Secretary of State for International Organization Affairs has stated certain goals to improve IO operations. He is seeking to increase IO's preparation and participation in international forums and his highest priority is to reassert United States leadership and voice in international organizations.

As a consequence of conditions existing at the time he took office, the present Assistant Secretary for the Bureau of International Organization Affairs, nominated by the President on March 17, 1982, established five goals that he considered of highest priority. These may be summarized as follows:

(1) Reassert U.S. world leadership.

(2) Strengthen U.S. influence in international organizations.

(3) Control UN budget growth by pursuing budgets reflecting conservative fiscal policies and economic reality.

(4) Increase U.S. representation in international organizations.

(5) Increase the role of the private sector in programs and activities of international organizations.

However, the Investigative Staff could find no evidence at U.S. Embassies and Missions that these objectives were being implemented or that there had been any formal communication to the field.

The Assistant Secretary, in seeking to carry out these goals to strengthen and improve IO's operations has directed that a full review of U.S. participation in international organizations be made. The review is to consist of the preparation of Action Programs for the major international organizations and programs together with a questionnaire to cover smaller organizations and those that are the lead responsibility of other bureaus or agencies.

E. Restrictions Imposed by Congress

Over the years, Congress has expressed growing concerns relative to trends and issues arising in the UN system and has taken positive steps to bar expenditures of U.S. funds for certain UN programs contrary to U.S. interests. As an example of Congressional action in this regard the prohibitions included in the Supplemental Appropriation Bill, 1982, were extended by the Joint Resolution making continuing appropriations for the fiscal year 1983 and in part contained the following provisions:

> "Notwithstanding any other provision of law or this joint resolution, none of the funds provided for 'International Organizations and Programs' under section 101(b)

of this joint resolution shall be available for the United States proportionate share for any programs for the Palestine Liberation Organization, the Southwest Africa Peoples Organization, or Cuba."

These provisions are effective and have resulted in withholding of $741,925 from U.S. contributions to various UN organizations. To cite examples pertinent to this study, $550,000 has been withheld from the 1982 contributions to UNDP and $57,000 from U.S. contributions to UNICEF as these amounts represent the U.S. share of expenditures in Cuba.

* * * * *

ACRONYMS

ACC	Administrative Committee on Coordination
AFESD	Arab Fund for Economic and Social Development
AID	Agency for International Development
AsDB	Asian Development Bank
CERP	Combined Economic Reporting Program
DGD	Director General for Development and International Economic Cooperation
DTCD	Department of Technical Co-Operation for Development
ECA	Economic Commission for Africa
ECE	Economic Commission for Europe
ECLA	Economic Commission for Latin America
ECOSOC	The Economic and Social Council
ECWA	Economic Commission for Western Asia
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization
HABITAT	United Nations Center for Human Settlements
IAEA	International Atomic Energy Association
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
IDB	Industrial Development Bank
IFAD	International Fund for Agriculture Development
ILO	International Labor Organization
IMCO	Inter-Governmental Maritime Consultative Organization
IO	Bureau of International Organization Affairs, Department of State
IPF	Indicative Planning Figure
ITU	International Telecommunication Union
IYC	International Year of the Child
JIU	Joint Inspection Unit
NGO	Nongovernmental Organization
OPE	Office of Project Execution

PAHO	Pan-American Health Organization
SIS	Special Industrial Services
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environmental Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
UNRFNRE	United Nations Revolving Fund for Natural Resources Exploration
UNRRA	United Nations Relief and Rehabilitation Administration
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNV	United Nations Volunteers
UPU	Universal Postal Union
USAID	United States Agency for International Development
USUN	United States Mission to the United Nations
WFP	World Food Program
WHO	World Health Organization
WIPO	World International Property Organization
WMO	World Meteorological Organization
WTO	World Tourism Organization

ACTIONS TO RESTRAIN UN TECHNICAL ASSISTANCE

Senator Inouye: The Congress has expressed concern, for more than five years, that the Specialized Agencies regular program budget is being utilized to significantly increase technical assistance. As Congress has stated, during this past period, that it considers UNDP to be the technical assistance coordinator of the United Nations system, what action has the Department of State undertaken to limit this growth of technical assistance within the regular assessed budget?

Mr. Newell: The United States has insisted in all fora upon a lead role for the UN Development Program (UNDP) as the provider of technical assistance in the UN system.

As the single largest contributor to UNDP, the United States has provided the organization with the resources sufficient to discourage the Specialized Agencies from seeking to augment technical assistance with their own assessed funds.

We, along with other major donors, have insofar as possible, insisted throughout the UN system that all technical assistance be voluntarily funded and provided through the UNDP. In fact one of the benefits of our zero program growth budget policy for assessed budgets has been the thwarting of further technical assistance growth.

UN TECHNICAL ASSISTANCE

Senator Inouye: Would the Department of State provide a complete list of technical assistance projects, executed by the Specialized Agencies from their own regular budgets, for the years 1983 and projected for 1984? In addition, provide the total funds received by each of these agencies from the United Nations Development Program for these same years for technical assistance work.

Mr. Newell: I provide the following table from the United Nations Development Program Document DP/1983/57 which details United Nations system technical cooperation expenditures for 1982. The 1983 and 1984 project expenditures are not yet available.

TABLE 1

United Nations system technical co-operation expenditures in 1982
(Thousands of US dollars)

Executing agency	Funded by regular budgets	Funded by extrabudgetary sources other than UNDP, UNFPA and UNDP-administered funds	Funded by UNFPA	Funded by UNDP-administered funds	Funded by UNDP central resources a/
United Nations	6,686	12,490	24,747b/	2,149	85,100
UNIDO	3,121	16,952	(1)	3,256	67,600
UNCTAD	261	1,289	-	30	14,500
UNCTC	-	868	-	87	-
ECA	1,612	2,504	2,574	134	8,700
ECE	-	365c/	12	-	800
ECLA	524	3,233	2,080	-	1,800
ECWA	672	247	248	368	400
ESCAP	850	6,707	983	622	4,900
UNHCR	-	-	-	19	-
UNCHS	509	3,210	-	108	12,700
ILO	5,224	39,123	6,175	997	51,100
FAO	17,326	113,763	1,865	2,087	141,100
UNESCO	5,245d/	52,954	4,727	1,438	44,500
WHO	141,567e/	96,342e/	18,849	651	20,000
ICAO	-	22,977	-	220	35,300
World Bank and IDAf/		-	-	2,007	39,200
WMO	300	9,801	-	182	11,800
IAEA	13,451	5,727	-	790	4,300
IMO	-	3,633e/	-	24	6,800
ITU	128	5,684	-	336	25,100
UNDP	-	-	-	27,665g/	51,900h/
UPU	554	413	-	5	2,000
WIPO	764	912	-	-	700
WTO	-	5	-	-	800
ITC	-	11,347	-	3	-
UNICEF	-	-	3,154	2,394	-
UNFPA	-	-	15,413	6	-
WFP	-	-	-	12	-
Governments	-	-	23,391	16,036	25,200i/
Non-governmental Organizations (NGOs)	-	-	9,491	395	-
AsDB	-	-	-	-	4,100
AFESD	-	-	-	-	200
Total	198,594	410,240	113,727	61,428	660,600

ACC programme classification categories	Funded by regular budgets	Funded by extrabudgetary sources other than UNDP, UNFPA and UNDP-administered funds	Funded by UNFPA	Funded by UNDP-administered funds	Funded by UNDP central resources a/
01 Political affairs	-	4,837	-	-	300
02 General development issues, etc.	8,557	24,642	-	2,336	84,600
03 Natural resources	8,084	33,279	-	18,904	79,900
04 Agriculture, forestry and fisheries	14,092	77,217	-	8,963	159,100
05 Industry	4,812	20,842	-	2,870	78,500
06 Transport and communications	1,367	35,732	-	5,726	86,400
07 International trade	502	17,216	-	193	14,700
08 Population	-	1,378	113,727	-	2,700
09 Human settlements	688	3,418	-	1,338	11,700
10 Health	148,024	99,336	-	6,399	29,300
11 Education	1,715	18,344	-	3,480	35,600
12 Employment	3,866	27,795	-	1,581	38,200
13 Humanitarian aid and relief	107	-	-	-	1,800
14 Social conditions	2,163	2,850	-	1,860	6,700
15 Culture	1,338	22,915	-	-	5,700
16 Science and technol.	6,299	20,708	-	7,687	26,400
17 Unspecified	-	365c/	-	-	-
Total	198,594	410,240	113,727	61,428	660,600

a/ Provisional data covering indicative planning figures (IPFs), Special Programme Resources, Special Measures Fund for Least Developed Countries, Special Industrial Services and costsharing.

b/ Including expenditures by the United Nations Office for Financial Services.

c/ See footnote i/, table A.1.

d/ See footnote b/, table A.2.

e/ Including support costs.

f/ Excluding $730,726 million financed by World Bank loans, IDA credits and the EEC (see paragraph 26 and table A.8).

g/ Representing expenditures by OPE, UNRFNRE, UNV, UNFSSTD and UNSO.

h/ Representing expenditures by OPE and UNV.

i/ Including Government cash counterpart contributions of $8,600,000 to projects financed by UNDP central resources and executed by various agencies.

FUNDS AND PROGRAMS ADMINISTERED BY UNDP

Senator Inouye: What other United Nations funds and programs are administered by the UNDP? For the record, list the size of these programs.

Mr. Newell: The other United Nations funds and programs administered by UNDP and their sizes are as follows:

UN Capital Development Fund (UNCDF)
Total cumulative contributions as of 1982 amounted to $181.3 million.

UN Sudano Sahelian Office
As of 1982, it sponsored 129 projects requiring total financing of $701 million.

UN Financing System for Science and Technology for Development (UNFSSTD)
Agreement has yet to be reached on establishment of a financing plan and election of an executive board. Nevertheless, pledges of $39.5 million had been made through 1982.

UN Revolving Fund for Natural Resources Exploration (UNRFNRE)
As of 1982, cumulative resources totalled $46.1 million.

UN Volunteers (UNV)
UNV has deployed some 1,200 volunteers, 500 of whom were serving in 1982.

UNDP Energy Account
As of March 31, 1983, contributions totalled $7.1 million.

UN Trust Fund for Colonial Countries and Peoples (UNTFCCP)
As of December 31, 1982, the Fund's resources were $1.3 million.

Program Assistance to the Palestinian People
Total resources through 1986 are $7.5 million.

UN Special Fund for Land-Locked Developing Countries (UNSFLLDC)
Total contributions since 1977 are $876,100.

Voluntary Fund for the UN Decade for Women (VFDW)
In 1982, 75 projects were approved with a value of $3.8 million.

SUPPORT SERVICES PROVIDED BY UNDP OFFICES

Senator Inouye: What support services and related activities do the UNDP field offices provide the United Nations system?

Mr. Newell: UNDP estimates that its 116 field offices spend one-third of their total staff time on administrative and programming activities for other elements of the UN system. They often provide advice and administrative support to other members of the

UN family. They may also act on behalf of other UN organizations in dealings with their host governments. Among the activities supported by the UNDP and its Resident Representatives are those of the UN High Commissioner for Refugees, the UN Disaster Relief Office and the World Food Program. The UNDP Resident Representative also serves as the representative of the UN Fund for Population Activities. On request, he or she may act on behalf of a Specialized Agency which does not have a local representative. In addition, the Resident Representative will often be called upon to represent the Secretary General of the United Nations. Although these services are usually not reimbursed, they do benefit UNDP by enhancing its ability to coordinate UN development activities. In most countries, the UNDP Resident Representative is also designated by the UN Secretary-General to serve as Resident Coordinator of United Nations Operational Activities for Development.

U.S. NATIONALS IN UNDP

Senator Inouye: What percentage of positions in UNDP are held by U.S. nationals?

Mr. Newell: As of December 31, 1983, United States nationals held 17.7 percent of all positions of UNDP. The breakdown is as follows:

		Total Staff	
	Total	U.S.	U.S. %
Headquarters	615	121	19.67
Field Office	321	37	11.53
Other Funds	162	36	22.22
TOTAL	1,098	194	17.67

UNDP EXPENDITURES IN THE U.S.

Senator Inouye: Please provide a report of UNDP expenditures for contracts, office rental, goods and services, U.S. consultants' fees awarded to American companies and nationals.

Mr. Newell: UNDP expenditures for contracts, office rental, goods and services, and U.S. consultants' fees awarded to American companies and nationals, as well as for orders of equipment and for the training of fellowship recipients, for the years 1978-1982 were as follows:

	1978	1979	1980	1981	1982
Program support expenditures*	55.7	63.4	72.3	83.2	91.2
Salaries of U.S. experts	55.7	28.0	33.3	38.0	32.4
Equipment ordered from U.S. firms	18.0	32.4	39.4	39.5	33.2
Contracts awarded U.S. firms	13.2	19.3	15.7	12.1	19.5
Value of fellowships granted for U.S. study	6.5	7.0	9.4	11.2	10.2
TOTAL	149.1	150.1	170.1	184.0	186.5

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*Includes such things as office rentals and purchase/lease of supplies and services

UNDP EXPENDITURES AND PROFESSIONAL STAFF

Senator Inouye: Please provide a chart listing UNDP's expenditures on field programs for 1976 to 1983 and a list of number of professional staff serving with UNDP during these same years.

Mr. Newell: The following chart provides UNDP's project expenditures for the years 1976-1982 (1983's are as yet unavailable) as well as the number of professional staff serving with UNDP during those years:

	1976	1977	1978	1979	1980	1981	1982	1983[1]
Project Expenditures (US$ millions)	400.4	337.9	435.6	547.6	677.6	732.0	658.9	560.6
Professional Staff	700	599	611	637	626	670	688	681

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[1] Provisional.

MAJOR DONOR CONTRIBUTIONS TO UNDP

Senator Inouye: Please provide a chart illustrating the annual percentage change in voluntary contributions from the ten leading donors to UNDP from 1976 to 1983. Also, provide a complete list of these same countries' annual contributions to UNDP from 1976 to 1983.

Mr. Newell: The following chart illustrates the annual percentage change in contributions of the major donors to UNDP and the annual contributions of those countries in the years 1976-1983:

	1976	1977	1978	1979	1980	1981	1982	1983
United States								
Annual contrib.*	100.0	100.0	115.0	126.0	126.0	125.8	128.2	140.0
% change	-	-	15.0	9.6	-	-0.16	1.7	9.2
Netherlands								
Annual contribution	52.3	56.7	61.8	73.5	78.5	63.9	61.5	57.3.
% change	-	8.4	9.0	18.9	6.8	-22.8	-3.9	-6.8
Norway								
Annual contribution	21.3	28.3	34.2	41.1	48.0	48.8	55.1	51.4
% change	-	32.9	20.8	20.2	16.8	1.7	12.9	-7.2
Canada								
Annual contribution	28.8	32.4	34.5	35.1	35.2	37.7	41.8	49.6
% change	-	12.5	6.5	1.7	0.28	7.1	10.9	18.7
Sweden								
Annual contribution	50.7	57.6	61.1	70.3	76.5	62.6	53.1	48.6
% change	-	13.6	6.1	15.1	8.8	-22.2	-17.9	-9.3
Japan								
Annual contribution	20.0	22.0	25.0	35.0	41.0	45.9	51.4	54.8
% change	-	10.0	13.6	40.0	17.1	11.9	12.0	-6.6
West Germany								
Annual contribution	30.5	39.2	49.8	58.8	61.9	47.6	46.4	47.5
% change	-	28.5	27.0	18.1	5.3	-30.0	-2.6	2.4
Denmark								
Annual contribution	39.1	45.3	43.1	62.6	58.6	47.1	39.3	37.5
% change	-	15.9	-5.1	45.2	-7.4	-24.4	-19.8	-4.8
United Kingdom								
Annual contribution	29.2	34.4	47.6	58.1	34.9	34.2	32.6	28.3
% change	-	17.8	38.4	22.1	-66.5	-2.0	-4.9	15.2
France								
Annual contribution	10.0	10.0	14.0	16.0	25.1	23.7	26.1	27.6
% change	-	-	40.0	14.3	56.9	-5.9	10.1	5.7

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*US$ millions.

	1976	1977	1978	1979	1980	1981	1982	1983
Italy								
Annual contribution	4.1	4.2	5.3	5.4	13.7	16.9	23.2	25.7
% change	-	2.4	26.2	1.9	153.7	23.3	37.3	10.8
Switzerland								
Annual contribution	7.9	9.1	10.4	14.2	16.6	15.3	17.7	17.0
% change	-	15.2	14.3	36.3	16.9	-8.5	15.7	-4.1
Belgium								
Annual contribution	9.1	12.8	15.4	16.5	16.2	14.9	13.8	12.2
% change	-	40.7	20.3	7.1	-1.8	-8.7	8.0	13.1

EVALUATION OF UN DEVELOPMENT PROGRAMS

Senator Inouye: The Department of State and the Agency for International Development maintain an evaluation reporting system on the United Nations' development activities in the field. Please provide for the record a summary of these reports.

Mr. Newell: The CERP 0008 Review of UN Development Assistance Programs is a biennial reporting requirement. The last summary report was done in May 1982 at which time it was submitted to, and re-printed by, this Committee. The next summary report is due in May of this year and will be submitted to the Committee upon completion.

OFFICIAL INTERNATIONAL TRAVEL
OF
ASSISTANT SECRETARY NEWELL

Senator Inouye: In the prepared statement which you have submitted, you note that one of the top priorities of the Reagan Administration is to "continue savings in our participation in international conferences." In order that I may have a base from which to measure progress, please submit for the record a complete and detailed listing of all official international travel by the Assistant Secretary for International Organization Affairs during the period October 1, 1982, through September 31, 1983. Please be certain to provide the destination and purpose for each item of official travel as well as an accounting of transportation and other expenses. In any case where first-class travel was authorized, please explain why it was authorized.

Mr. Newell: I submit the following table detailing my official international travel from October 1, 1982, through September 31, 1983.

Official International Travel

Assistant Secretary Gregory J. Newell - IO

Date of trip	Destination	Purpose	Transportation Costs - Air	Other
January 18-February 1, 1983	Tokyo, Japan Singapore Thailand India Pakistan	Bilateral/UN Consultations	$2,652.04	$ 991.32
February 7-9, 1983	Montreal, Quebec Ottawa, Ontario	Bilateral/UN Consultations	$ 325.72	$ 233.00
March 16-25, 1983	London, England Geneva & Bern, Switzerland Paris, France	Confer with UK Re: Geneva Group Meeting Co-chair Annual Geneva Group Meeting	$1,924.00	$ 596.43
April 7-9, 1983	Mexico	International Studies Association Conference and Bilateral Consultations & Speech	$ 380.00	$ 71.48
April 29-May 14, 1983	Kinshasa, Zaire Bujumbura, Burundi Dar es Salaam, Tanzania Harare, Zimbabwe Cape Town, South Africa	Bilateral Consultations	$3,694.00	$ 990.46
	Nairobi, Kenya	Led U.S. Delegation to UNEP Governing Council Meeting		

June 8-24, 1983	Brussels, Belgium The Hague, Netherlands Belgrade, Yugoslavia Rome, Italy Malta Geneva, Switzerland Paris, France Algiers, Algeria Tunis, Tunisia	Pre-UN General Assembly Consultations Lead U.S. Delegation to 84th FAO Council Meeting	Basic air fare paid by FAO as head of delegation	$1,416.08
August 15 - September 2, 1983	Tokyo, Japan Manila, Philippines Kuala Lumpur, Malaysia Beijing, China Wellington, New Zealand Canberra, Australia	Pre-UN General Assembly Consultations	$5,452.28	$1,589.01

No First class travel requested.

BUDGET CUTS

Senator Inouye: Madame Ambassador. I have carefully read your proposed statement and I have found broad areas of agreement with you.

In particular, I note your statement that U.S. financial support of the United Nations symbolizes "our dedication to world peace and the improvement of the quality of life in nations less fortunate than ours."

So, I imagine you share my disappointment with the proposed $40 million reduction in funding for the UN Development Program, the $24.5 million reduction in our contribution to UNICEF, and a 70 percent reduction in our contribution to the UN Environment Program.

Am I correct, do you share my disappointment?

Do these sharp reductions in programs which have been strongly supported by the Congress symbolize a diminution of the Administration's "dedication to world peace and the improvement of the quality of life in nations less fortunate than our own"?

Why has the Administration proposed these reductions? How do you justify them? Did you recommend that these reductions become part of the fiscal year 1985 budget request?

Ambassador Kirkpatrick: Like you, Senator Inouye, I have warm admiration for the work of UNDP and UNICEF, and many of the other voluntary agencies of the UN. All work on subjects of great importance to us and to the world community, and many of them do truly outstanding jobs. If we propose reductions in the United States contribution, it is not because we are unhappy with their work, and not because we consider their work unimportant. Rather, in a time of budgetary stringencies, when we must wrestle with very large deficits and make savings wherever we can, we simply cannot say that these agencies, however much we value them, must be shielded from budget cuts even as we are forced to make cuts in US domestic programs.

THE EFFECT OF VOLUNTARY SUPPORT LEVELS ON MAINTAINING ZERO NET GROWTH OF ASSESSED BUDGETS

Senator Inouye: One of the priorities of the Reagan Administration in its approach to the United Nations system was to achieve "zero net program growth for assessed budgets" of the Specialized Agencies. How will the proposed 25 percent reduction in U.S. voluntary contributions affect this priority objective?

Ambassador Kirkpatrick: We have worked hard to insure that the budgets of the United Nations and the Specialized Agencies adhere to the principle of zero net program growth. The result of our efforts is that program growth in UN system budgets has largely been confined to a fraction of one percent.

The proposed funding level for UNDP and the other voluntarily supported organizations is dictated by budgetary necessity which requires lower outlays. These levels do not reflect adversely on the value of these organizations, particularly that of UNDP which we regard highly and firmly support. We are, of course, mindful of the effect which these lower levels could have on the technical assistance components of the budgets of the several Specialized Agencies. We will closely monitor these budgets and take the necessary steps to counter any efforts to increase significantly budgets of the Specialized Agencies or the technical assistance components thereof.

THE EFFECT OF VOLUNTARY SUPPORT LEVELS ON TECHNICAL ASSISTANCE IN ASSESSED BUDGETS

Senator Inouye: The Congressional Presentation states: "U.S. opposition to technical assistance and other forms of program growth in the regular (assessed) budgets would be severely undermined in the absence of continued substantial U.S. contributions to UNDP and other voluntarily funded development assistance activities." (NOTE: Because reduced voluntary contributions to the UNDP often results in increased technical assistance portions of the assessed budgets of Specialized Agencies.) Do you not see this as inconsistent with the proposed reduction in UNDP funding?

Ambassador Kirkpatrick: Our efforts to contain the growth of regular (assessed) budgets in the UN system stem from the need to ensure efficiency in UN activities, avoid waste and duplication, and provide for budgetary responsibility in the face of the difficult financial situations of the contributing countries -- our own included. For the same reasons, we are proposing a level of support for UNDP which we believe to be consistent with our worldwide obligations, domestic requirements, and the efforts of this Administration to hold down expenditures and improve our economic posture.

THREATS TO GLOBAL ENVIRONMENT

Senator Inouye: Madame Ambassador. An increasing number of my colleagues are becoming interested in threats to the global environment. What measures has the Department of State taken to ensure that U.S. foreign policy decisions do not increase those threats?

Ambassador Kirkpatrick: The U.S. incorporates environmental considerations in its approach to a wide range of foreign policy issues, such as development assistance and support for multilateral efforts to protect the global environment. AID places high priority on the environmental component of its development assistance projects. The U.S. is an active participant in the main international organizations dealing with the environment: the UN Environment Program (UNEP), the Organization for Economic Cooperation and Development (OECD) (through its Environment Committee) and the UN Economic Commission for Europe (ECE). Environmental undertakings are included in many U.S. bilateral agreements on science and technology. As a general matter, the Department of State is aware of environmental concerns and we seek to ameliorate global, regional and bilateral environmental problems through international cooperation. There are, of course, clear limits on our ability to influence the national environmental policies of other sovereign states.

Senator Inouye: Are environmental considerations an integral part of Department decision-making?

Ambassador Kirkpatrick: As you know, the Bureau of Oceans and International Environmental and Scientific Affairs has principal responsibility for insuring that environmental considerations are appropriately incorporated in the policies of the Department. Since many environmental problems have transboundary effects, environmental issues inevitably are playing a larger role in our foreign policy. Recently, taking account of the increased awareness of environmental issues in many other countries - due in part I believe to the success of the Department's policies - we have raised environmental issues at the highest levels of our contacts with numerous other governments.

Senator Inouye: In fiscal year 1983, the Congress appropriated $7,850,000 for the U.S. contribution to the UN Environment Program. In your request for fiscal year 1984 funding, you proposed to reduce the U.S. contribution to $3 million. The Congress acted on that request and increased funding to $10 million. Now you are before us again proposing to reduce U.S. funding to $3 million. Why has the Department of State consistently recommended funding levels for the United Nations Environment Program that are far below amounts appropriated by the Congress?

Ambassador Kirkpatrick: In this period of budgetary austerity, international organization budgets - which have grown so rapidly in recent years - are subjected to careful scrutiny. The United States has been the preeminent supporter of UNEP's Environment Fund since that organization's beginning. We are currently contributing 2 1/2 times as much as the next largest contributor (Japan), over 30% of all contributions and about 40% of convertible currency contributions. While we strongly support the broadly-shared international goals of protecting the global environment and promoting sustainable development, we believe that other countries should bear a greater share of the financial burden for UNEP. As long as the U.S. continues to provide a disproportionate share of UNEP contributions, other donors will have little incentive to increase their share significantly.

UN VOTING PRACTICE

Senator Inouye: Has the President found any country to be engaged in a consistent pattern of opposition to the foreign policy of the United States on the basis of your report on UN votes?

Ambassador Kirkpatrick: The President has made no such determination since the transmittal of the report on voting practices in the United Nations.

Senator Inouye: In reaching such a finding, would the President consider other dimensions of our relations with such a country or would he rely solely on the report required by Section 101(b) of Public Law 98-151?

Ambassador Kirkpatrick: The relevant language of Public Law 98-151 describes a Presidential finding "based on the contents of the [Section 101(b)] report." Whether to make such a finding is discretionary. In considering whether to exercise that discretion and make such a finding, the President could appropriately take into account the entire range of United States relations with, and interest in, the country in question. Therefore the President could consider not only a country's voting behavior in the UN, but such interests as political, economic, strategic and other considerations which constitute the various elements governing our relation with that country.

Senator Inouye: Would the President be required to notify the Congress prior to the termination of funding as a result of a finding under this provision of law? Could he unilaterally terminate funding?

Ambassador Kirkpatrick: The language of Section 101(b), as enacted into law, indicated that the prohibition on obligation or expenditure of funds would become effective immediately and automatically upon a Presidential finding that a country has engaged "in a consistent pattern of opposition to the foreign policy of the United States." Similarly, Congress did not insert any reporting requirement. However, it has been general Executive Branch practice to keep the Congress fully advised of such significant Presidential actions.

QUESTION SUBMITTED BY SENATOR HATFIELD

CONTINUATION OF UNESCO ACTIVITIES

Senator Hatfield: The Administration recently announced its intention to withdraw from UNESCO by the end of the year. As you know, the U.S. provided nearly 25% of all contributions to that Organization. While I support that decision, I am interested in determining whether the U.S. will continue the educational, scientific and cultural activities on a bilateral basis?

Ambassador Kirkpatrick: The U.S. does intend to continue support for a variety of international activities in the fields of education, science, culture and communication which are beneficial to U.S. interests. Many UNESCO programs in these fields are harmful to our interests. In the course of reviewing FY-86 budget proposals, we intend to identify those activities which genuinely promote international cooperation and development. In this regard, we expect to utilize both public and private mechansisms -- multilateral, regional and bilateral.

QUESTIONS SUBMITTED BY SENATOR JOHNSTON

COMPACT OF FREE ASSOCIATION

Senator Johnston: I am advised, and indeed the budget request suggests, that the Administration may submit the compact of free association to the United Nations at the same time that the compact is submitted to the Congress.

The compact only covers 2/3 of the Trust Territory at this point, with issues unresolved with Palau.

Is there any precedent for submitting a partial plan to the United Nations in the past? Specifically address the issue of Namibia in your response.

> If so, what were those precedents, how were they handled, and what was the outcome?

Ambassador Kirkpatrick: The Administration does not intend to request termination of the trusteeship agreement for the Trust Territory of the Pacific Islands until Congress has completed the approval process for the Compact of Free Association. Nor do we at this time envisage seeking termination before the question of Palau's approval of the Compact is resolved, and Congress has approved an agreement with Palau.

The United States has long held that at an appropriate time the matter of trusteeship termination should be taken up with the United Nations with respect to the entire trust territory on the basis of mutually agreed political status arrangements approved by the Congress and the peoples concerned. We intend to take up the matter of termination with the United Nations on only one occasion.

In 1976 the United States decided not to seek termination of the trusteeship for the Northern Mariana Islands on the basis of approval and implementation of self-government for that component of the Trust Territory under the Commonwealth Covenant. It continues to be the desire and intention of the United States to conclude political status negotiations with representatives of all the peoples of the trust territory, and to seek termination of the trusteeship for the entire trust territory based upon the freely expressed wishes of those people.

However, in order to act fairly and reasonably toward the Micronesian governments which have approved agreements with the United States, it may someday be necessary to consider another course. We have not fully examined this question because we do not expect that any arrangement other than simultaneous termination of the trusteeship for the whole Trust Territory will be necessary. We are fully confident that we and the Government of Palau will be able to find a solution to the current difficulty.

Confusion may have arisen with regard to the separate question of implementation of the Compact following Congressional approval. As is the case with the Northern Mariana Islands Commonwealth Covenant, implementation of the Compact prior to the termination of the trusteeship would have to be consistent with U.S. obligations under the United Nations Charter and the 1947 Trusteeship Agreement with the Security Council.

The question of Namibia has no parallel with the status of the Trust Territory of the Pacific Islands, since the former has never been a United Nations Trusteeship. South West Africa, now called Namibia, was a League of Nations mandate, but South Africa refused the invitation of the United Nations to submit a trusteeship agreement for the Territory. By contrast, the United Nations Security Council established the Trust Territory of the Pacific Islands as a strategic trust territory under U.S. administration in 1947.

In 1950, at the request of the General Assembly, the International Court of Justice (ICJ) issued an Advisory Opinion concerning the legal status of Namibia. The Court held that the dissolution of the League of Nations and its supervisory machinery had not entailed the lapse of the mandate, and that the mandatory power was still under an obligation to give an account of its administration to the United Nations, which was legally qualified to discharge the supervisory functions formerly exercised by the League. On October 27, 1966, the General Assembly decided that the mandate for South West Africa was terminated and that South Africa had no other right to administer the Territory. The Security Council in 1969 endorsed that decision. In 1971, the ICJ issued another Advisory Opinion that the continued presence of South Africa in Namibia was illegal and that South Africa was under an obligation to withdraw its administration immediately. No similar action has been taken with respect to Trust Territory of the Pacific Islands.

With regard to the question of partial termination of a trusteeship, one of the original trust territories, the Cameroons under British Administration, was terminated at different dates for separate parts of the territory. The General Assembly specified that the trusteeship agreement would be terminated "with respect to the Northern Cameroons on 1 June 1961, upon its joining the Federation of Nigeria . . . [and] with respect to the Southern Cameroons on 1 October 1961, upon its joining the Republic of Cameroun . . ." (GA Resolution 1608 (XV)). The Trusteeship of Ruanda-Urundi was also ended on the basis of separate status for separate parts of the territory (independence for the separate states of Rwanda and Burundi), but this occurred simultaneously. In both cases, the General Assembly concurred in differing treatment of separate areas of a trust territory, based on the freely expressed wishes of the inhabitants of each territory. It is the Administration's belief that, in the case of the Trust Territory of the Pacific Islands, the Security Council (which under the UN Charter is the responsible UN organ for this sole 'strategic' trust territory) will be guided by the same principle as was the General Assembly, i.e., that any post-trusteeship arrangement will be satisfactory so long as it has been freely chosen by the people of the Trust Territory.

Senator Johnston: To which division does the administration plan to submit the compact? What are past precedents on this and what were the outcomes?

Ambassador Kirkpatrick: There is no direct precedent for the termination of the Trust Territory of the Pacific Islands. Unlike the other trusteeships established by the United Nations between 1946 and 1950, the TTPI was designated as a "strategic trust," responsibility for which was vested in the UN Security Council (rather than the General Assembly, which supervised all the others). Nor is there any provision in the UN Charter for termination of a trusteeship. However, it is clear that the Security Council must play a role. The U.S. has long maintained that we intend to take up the matter of termination, and the precise procedure to be employed to that end, with the Security Council and the Trusteeship Council at the appropriate time.

The United Nations, in considering the question of termination, will inevitably assess whether the United States has fulfilled its obligations with respect to the basic objectives of the trusteeship system, as set down in Article 76 of the UN Charter and as reflected in the Trusteeship Agreement. Of these, the most fundamental is our obligation to "promote the development of the inhabitants of the trust territory toward self-government or independence as may be appropriate to the particular circumstances of the trust territory and its peoples and the freely-expressed wishes of the peoples concerned." We believe that approval of the peoples of the Trust Territory of their respective future political status fully meets this test.

SUBCOMMITTEE RECESS

Senator KASTEN. I would like to thank you very much for your testimony this morning. I look forward to working with you again this year in our efforts at a balanced foreign assistance package.

This concludes our hearing. The subcommittee will stand in recess until 10 o'clock Tuesday, March 6, at which time we will receive testimony from William Schneider, Under Secretary of State for Security Assistance, Science and Technology.

Thank you very much, Ambassador Kirkpatrick.

Ambassador KIRKPATRICK. Thank you very much, Mr. Chairman.

[Whereupon, at 11:56 a.m., Friday, March 2, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 6, 1984.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MARCH 6, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:30 a.m. in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and Leahy.

DEPARTMENT OF STATE

SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

STATEMENT OF WILLIAM SCHNEIDER, JR., UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

ACCOMPANIED BY LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order.

This morning we will continue our hearings on the administration's request for the 1984 supplemental and the 1985 budget. Our witness this morning is Mr. William Schneider, Under Secretary of State for Security Assistance, Science and Technology.

Bill, we have your prepared statement, and also a statement from General Gast. We also have a summary of your statement that I understand you would like to read, and I hope you will proceed with that, and then we will have an opportunity for a few questions.

Mr. SCHNEIDER. Thank you very much, Mr. Chairman.

It is a privilege to appear before this subcommittee again to take the lead in the foreign assistance program.

With your permission, Mr. Chairman, I would like to submit my long statement, for the record, and just go through an abbreviated version of this abbreviated statement.

Senator KASTEN. Without objection, so ordered.

SECURITY ASSISTANCE COMPONENT OF BUDGET REQUEST

Mr. SCHNEIDER. Secretary Shultz and others have described the overall balance in our foreign assistance proposal. I am here today to discuss with you the security assistance component of the foreign assistance budget request.

There are three difficult, but vitally important issues facing our security assistance program this year:

First, in our own hemisphere, Soviet and Cuban-backed insurgents continue to exploit decades of old social and economic tensions. Their efforts to undermine the governments of Central America jeopardize the democratic and economic reforms made by every one of our aid partners in Central America.

The battle in El Salvador against outrageous acts by both the left and the extreme right is far from over, but the trend is clearly toward pluralistic and democratic institutions. U.S. assistance is critical to the continuation of this trend, not only in El Salvador, but elsewhere in Central America.

The National Bipartisan Commission on Central America has described the strategic importance of this region and recommended significant increases of both economic and security assistance. Both are essential if either is going to succeed.

Second, recent events in the Middle East make it clear that tensions remain acute. Crisis in the region threatens U.S. and Western interests. While the costs to the United States already are high, we cannot waver in our efforts to promote a broader peace in the region.

Our decision to provide all military assistance for Israel and Egypt on a grant basis in fiscal year 1985 reflects our determination that the costs of military preparedness and vigilance to these countries not come at the expense of their economic well-being.

Third, a less visible, but equally serious crisis looms in the growing debt burdens of many developing countries. The Commission on Security and Economic Assistance focused on this problem. This Commission, known as the Carlucci Commission, noted that many countries borrowed heavily for development during the 1970's, mistakenly assuming rising world prices for their commodity exports. Thus, they now face dangerously high debt levels.

The increased economic assistance that we are proposing is not on its own sufficient. Many of these countries, including such important security assistance partners as Turkey, Sudan, Morocco, and Tunisia, face a Hobson's choice: either military preparedness at the cost of more debt and economic insecurity or fiscal conservatism with its price of heightened military vulnerability. Either alternative threatens U.S. interests.

LOANS TO DEVELOPING COUNTRIES

The Carlucci Commission recommended that more of our security assistance be offered at concessional terms. The administration proposal to place all FMS loans on-budget is also a step recommended by many in the Congress. In previous years, the money for FMS loans was carried off-budget. Treasury borrowed the required amounts and made funds available to the Federal Financing Bank, which in turn made the loans at market rates.

These loans were then guaranteed by the Department of Defense. The impact on overall Federal military assistance activity and the effect on the credit market were the same as they would have been if the loans had been financed on-budget.

Our proposal to place FMS loans on budget will thus bring into the open what has heretofore been partially obscured by depending on the off-budget Federal Financing Bank mechanism, and most importantly will allow us to offer lower, concessional rates of interest to selected countries. Because concessional loans are more valuable than market rate loans, we have been able to reduce country programs proposed by fiscal year 1985 by approximately $500 million from the levels of fiscal year 1984.

SECURITY ASSISTANCE BENEFITS

The administration is requesting $15.8 billion for foreign assistance, of which $9.8 billion is security assistance, both economic and military. Security assistance provides direct benefits to the United States.

First, the United States cannot afford to maintain a force structure and capabilities to defend the free world alone. We must depend upon our allies to deter local and regional threats to our common interests. At a minimum, this gives the United States time to consider and prepare an appropriate response to aggression.

Second, we factor the capabilities of our allies into our planning and procurement, resulting in economies for both our allies and for us.

Third, because the military assistance programs are managed by the Department of Defense in conjunction with U.S. procurements, both the United States and the foreign buyer reap the benefits of consolidated planning and economies of scale in production.

Fourth, since almost all military assistance is spent on U.S. manufactured items, there is a direct benefit in jobs for American workers.

Finally, security assistance also provides direct strategic benefits to the United States. Some of our largest assistance programs, for example, Egypt and Israel, help countries deter aggressive neighbors. Other large programs go to countries such as Portugal and the Philippines, with which we have concluded vital base rights, transit and access agreements for our own armed forces. Ninety-one percent of the military assistance requested in 1985 is for countries in these categories.

SUPPLEMENTAL FUNDING FOR CENTRAL AMERICA

The administration's emergency request for supplemental funds for Central America totals $659.1 million. As the Kissinger Commission noted, the roots of Central America's trouble lie in social inequity, unrepresentative politics, weak legal institutions, disrespect for human rights, and other problems of societies in urgent need of reform. These problems have been compounded by the international economic shocks of the past several years.

Over 60 percent of the total supplemental Central American assistance is for economic assistance. Economic Support Fund (ESF) assistance will be used to help reverse the sharp decline in gross domestic product, per capita consumption and employment, and to finance crucial imports of raw materials and spare parts.

Local currency generated by ESF will fund credit programs for the private sector and projects in housing, health, education, and agricultural development. Our nonproject assistance will be conditioned on implementation of reforms crucial to the effectiveness of our assistance, and to the establishment of policies which will ensure sustainable economic growth.

The Commission warned that without enhanced security, economic assistance and diplomatic efforts will be undermined. The Commission stressed that, in its words, "the worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully." We are, therefore, requesting $259 million in supplemental military assistance program grants for fiscal year 1984.

SITUATION IN HONDURAS

Honduras also faces an incipient insurgency movement and is rightly concerned about the massive military build-up in neighboring Nicaragua. We are requesting that Honduras receive $72.5 million in ESF assistance to complement its IMF agreement and cushion the economic adjustments it is making, and $37.5 million in military assistance.

Twenty-five million dollars would be destined for the Regional Military Training Center (RMTC) established in Honduras. Training is one of the most important aspects of our Central American assistance. The RMTC is a valuable low-cost way to provide large-scale training to Honduran and Salvadoran troops, and possibly other forces from the region, in a realistic environment.

In fiscal year 1985, as the Bipartisan Commission noted, Central American problems will not be overcome overnight, and we will expand our efforts in that fiscal year in Central America. Military assistance relative to economic aid for that area will decline, assuming the supplemental passes, and the ratio of economic to military aid will be more than four to one.

FMS SECURITY ASSISTANCE PROGRAMS

FMS is the largest of the five security assistance programs for which the administration is requesting $5.1 billion. Thirty-nine percent, or $1.99 billion, would be provided at the Treasury rate of interest to 10 countries. Another $538.5 million, or 11 percent of program, would be provided to 16 countries at concessional rates of interest.

Economic need and the ability of the country to repay will be the primary criteria in determining who receives concessional FMS interest rates, just as it is in determining who receives grant military assistance. The countries that we are proposing for concessional rates include Turkey, El Salvador, Jordan, the Philippines, and Morocco.

In fiscal year 1985, all FMS financing for Israel and Egypt would be forgiven. In both countries, debt payments, including especially FMS repayments, are a major economic constraint. By shifting to all grant programs, we slow the spiraling increases in FMS repayments, and we can actually reduce program size without affecting its integrity.

ECONOMIC SUPPORT FUND

The other large program is the Economic Support Fund, which comprises approximately 35 percent, or $3.44 billion, of our total program for fiscal year 1985. In the light of tight credit markets, low commodity prices, and high debt service requirements, ESF promotes political and economic stability in countries of special economic, political or security interest to the United States.

The military assistance program (MAP) provides grant funding for purchases of defense articles and services. We are requesting $924.5 million for countries which would find it difficult to repay.

The international military education and training (IMET) program provides grant funds for professional military training. At $60.9 million, IMET represents less than 1 percent, only a small fraction, of our fiscal year 1985 request. Nevertheless, it is one of the most cost-effective programs.

PKO ACCOUNT

The small peacekeeping operation, PKO, account provides for multilateral peacekeeping activities in the Sinai, Cyprus, and Grenada. We are requesting $49 million in fiscal year 1985 in PKO funds.

In addition to the Central America, Egypt, and Israel programs that I have already discussed, there are a number of other programs that are important to our own defense preparedness and national security objectives. I will not repeat the Secretary's description of those security objectives now, except to reiterate that our programs continue to be directed at promoting stability in the Middle East, to countering Soviet encroachment through Afghanistan and Libyan subversion in Northern Africa, to facilitating negotiation of military access and transit rights for U.S. forces in Southwest Asia and base rights agreements in Europe, to assisting military modernization and economic stability in Europe, to protecting the front-line states of Korea and Thailand from threats posed by North Korea, Vietnam and the Soviet Union, to promoting negotiation and peaceful resolution of conflict in Africa, and to helping Caribbean countries to meet the challenge of independence at a time when they face the worst economic recession the area has experienced since the 1930's.

LEGISLATIVE PROPOSALS

Also for fiscal year 1985, we are proposing a few new legislative proposals, together with certain proposals not acted upon in the last 2 years. We have attempted to limit the number and scope of legislative proposals to those most important to the effective operation and administration of the programs. These proposals are important. I urge their adoption.

Today I have touched on the highlights of our fiscal year 1984 Central America supplemental and our fiscal year 1985 security assistance program.

Mr. Chairman, the administration has attempted to implement recommendations which you and other members of the Carlucci Commission made with regard to security assistance. We believe that a better mix of economic and military assistance has been achieved in the overall foreign aid program proposals for this year.

The administration has also responded to the concerns of the Kissinger Commission about security and economic needs of Central America. We hope the Congress will give both the 1984 supplemental and the proposed 1985 program full support.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Schneider follows:]

Prepared Statement of William Schneider, Jr.

UNDER SECRETARY OF STATE
FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

Introduction

Mr. Chairman, members of the Subcommittee, Secretary Shultz has provided an overview of the President's proposed FY 1984 Supplemental Budget Request and FY 1985 Foreign Assistance Budget. He highlighted the balances we have struck between security and economic assistance. Peter McPherson has provided details on the economic assistance portion of the foreign assistance budget. I am here today to provide a more comprehensive description of the security assistance component.

There are three difficult, vitally important issues facing our security assistance program this year:

First, in our own hemisphere Soviet and Cuban-backed insurgents continue to exploit decades old social and economic tensions. Their efforts to undermine the governments of Central America jeopardize the democratic and economic reforms being made by every one of our aid partners in Central America. The battle in El Salvador against outrageous acts by both the left and the extreme right is far from over, but the trend is clearly toward pluralistic, democratic institutions. U.S. assistance is critical to continuation of this trend, not only in El Salvador, but elsewhere in Central American countries. The National Bipartisan Commission on Central

America has described the strategic importance of this region and recommended significant increases of both economic and security assistance. Both are essential if either is to succeed. The Administration concurs in the importance the Commission placed on the region and in the Commission's recommendations. Even though appropriations for other worldwide programs were cut below requested FY 1984 request levels, we are limiting our request for supplemental FY 1984 security assistance to Central America where the need is greatest and timeliness most critical. In addition, we propose significant increases for Central America in FY 1985, particularly in economic assistance. The ratio of economic to military assistance for Central America in FY 1985 will be over 4 to 1.

Second, recent events in the Middle East, an area that has received the largest proportion of our security assistance over much of the past decade, make clear that tensions remain acute. The crisis in the region is a clear threat to U.S. and Western interests. While the costs to the U.S. already are high, we cannot waiver in our efforts to promote a broader peace in the region. It is far less costly to continue to support our friends in their efforts to thwart terrorism and exported revolution than to try to untangle the wreckage that comes with war. Our decision to provide all military assistance for Israel and Egypt on a grant basis in FY 1985 reflects our determination that the costs of military preparedness and vigilance to these countries not come at the expense of their economic well-being.

Third, a less visible, but equally serious, crisis looms in the growing debt burdens of many developing countries. The Commission on Security and Economic Assistance focused on this problem. It noted that many countries borrowed heavily for development. They assumed mistakenly rising world prices for their commodity exports in the 1970's. Thus, now they face dangerously high debt levels. The increased economic assistance that we are proposing is not, on its own, sufficient. Many of these countries, including such important security assistance partners as Turkey, Sudan, Morocco and Tunisia, face a Hobson's choice: either military preparedness at the cost of more debt and economic insecurity or fiscal conservatism with its price of heightened military vulnerability. Either alternative threatens U.S. interests.

The Carlucci Commission recommended, therefore, that more of our security assistance be offered at concessional terms. The Administration is proposing that all FMS loans be placed on-budget in FY 1985 which will allow us to offer concessional terms when appropriate. This step in also one recommended by many in Congress. It will enable us to tailor terms of assistance to the individual requirements of recipients. Because concessional loans are more "valuable" than market rate loans, military assistance levels will actually decline by $177 million in FY 1985 from the FY 1984 request. For many countries, particularly in Africa and Central America, the economic need is so great that we propose all-grant programs.

Value/Purpose of Security Assistance

The Administration is requesting $15.8 billion for foreign assistance of which $9.8 billion is security assistance, both military and economic.

Security Assistance provides direct benefits to the U.S.:

--The U.S. cannot afford to maintain a force structure and capabilities to defend the free world alone. We must depend upon allies to deter local and regional threats to our common interests. At a minimum, this gives the U.S. time to consider and prepare an appropriate response to aggression. It is important to realize that our military programs only provide the equipment and training; economic assistance often is needed to ensure the growth of stable domestic political and economic institutions necessary to make this strength credible.

--We factor the capabilities of our allies into our planning and procurement, resulting in economies for both our allies and for us. I estimated last year that it would cost $60,000 to equip and maintain one U.S. soldier in Turkey, should that be necessary; it costs only $9,000 for one Turkish soldier. Thus, security assistance is cost effective in manpower terms. Because the military assistance programs are managed by DOD in conjunction with U.S. procurement, both the U.S. and the foreign buyer reap the benefits of consolidated planning and economies of production--thus lowering U.S. defense costs.

-- Since almost all military assistance is spent on U.S. manufactured items, there is a direct benefit in jobs for American workers.

-- Finally, security assistance also provides direct strategic benefits to the U.S. Some of our largest assistance programs help countries which have aggressive neighbors to maintain a credible deterrent. Our security assistance programs to Israel and Egypt are two good examples. Israel shares a common border with a hostile, Soviet-supported regime in Syria, while Egypt must contend with, and defend itself against, the expansionist designs of its Libyan neighbor.

Other large programs go to countries, such as Portugal and the Philippines, with which we have concluded vital base rights, transit and access agreements for our own armed forces. These arrangements are critical to our defense posture worldwide. Over 47% of the military assistance requested in 1985 is for countries in these two categories.

FY 1984 Supplemental

In the aggregate, the Continuing Resolution level is roughly comparable to the Administration's FY 1984 request. Nevertheless, because the Continuing Resolution added significant amounts above the original budget request for Israel and Egypt, the cuts suffered in other areas of the world are obscured. Rather than seek to restore these cuts, however, the Administration has decided to seek FY 1984 supplemental security assistance only for Central America. This emergency request, totalling $659.1 million, is needed to begin implementing the recommendations of the Bipartisan Commission.

The Kissinger Commission report concluded that "Central America's present suffering is to an important degree the product of internal conditions." The roots of Central America's troubles lie in social inequity, unrepresentative politics, weak legal institutions, disrespect for human rights, and other problems of societies in urgent need of reform. These problems have been compounded by the international economic shocks of the past several years.

As a result, over 60 percent of the total supplemental Central American assistance request of $659.1 million is for economic assistance; $290.5 million of this is Economic Support Fund (ESF) assistance. This amount will be used to help reverse the sharp declines in GDP, per capita consumption, and employment, and to finance crucial imports of raw materials and spare parts. Local currency generated by ESF will fund credit programs for the private sector and projects in housing, health, education and agricultural development. At the same time, I know there are concerns about absorption and accountability. Our non-project assistance will be conditioned on implementation of reforms crucial to the effectiveness of our assistance, and to the establishment of policies which will ensure sustainable economic growth.

The twelve Democrats, independents and Republicans on the Bipartisan Commission agreed that the acute crisis in Central America endangers fundamental security interests of the U.S. The Bipartisan Commission warned that without enhanced security, economic assistance and diplomatic efforts will be undermined. We are therefore requesting $259 million in supplemental Military Assistance Program (MAP) grants for FY 1984.

Almost 69 percent, or $178 million, of this supplemental MAP is proposed for El Salvador where leftist insurgents are attempting to prevent the emergence of democratic government and destroy the economic infrastructure. Urging increased levels of military aid to El Salvador, the Bipartisan Commission stressed that "the worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully." Supplemental MAP grants would be used to expand the size, proficiency and mobility of the Salvadoran Armed Forces. In order to achieve this capability, these funds will be expended to purchase training and such key equipment as artillery, patrol boats, and communication and radar equipment, and ammunition. El Salvador also plans to acquire fixed wing and rotary aircraft for observation and transport purposes. MAP grants will also provide a vitally needed military medevac capability.

Neighboring Honduras suffers a deteriorating economy. To complement the IMF agreement with Honduras, and to help cushion the economic adjustments Honduras is making, we will be providing $72.5 million in ESF assistance. Honduras also faces an incipient insurgency movement and is rightly concerned about the massive military build-up in neighboring Nicaragua. We are requesting that Honduras receive $37.5 million or about 14 percent of the MAP supplemental request to counter this threat. These funds would provide needed training and equipment and allow for an expansion of the Honduran ground force by one infantry battalion.

Twenty-five million dollars would be destined for the Regional Military Training Center (RMTC), established in Honduras in 1983. One of the most important aspects of our Central America military assistance programs is training. The RMTC is a valuable low-cost way to provide larger-scale training to Honduran and Salvadoran troops, and possibly other forces from the region, in a realistic environment. The construction of more permanent facilities would improve the administrative and operational efficiency of the training center.

Lesser amounts of supplemental MAP would be provided to Costa Rica and Panama.

These supplemental funds are critical to further the development of democracy, restore peace, and improve living conditions in Central America.

FY 1985 Request

As the Bipartisan Commission noted, Central American problems will not be overcome overnight, and in FY 1985 we will expand our economic effort in Central America. Military assistance relative to economic aid will decline, assuming the supplemental passes, and the ratio of economic to military aid will be more than 4-1.

On-Budget Financing. In addition to the importance of Central America in the FY 1985 request, a major new departure this year for the U.S. military assistance program is our proposal to bring the entire Foreign Military Sales (FMS) financing program on-budget.

The Carlucci Commission found that the external debt of several countries important to U.S. interests has grown to the point where they are in danger of defaulting on repayment of loans. The Commission also noted that, for a few countries, U.S. foreign assistance loans represent a substantial portion of their foreign debts. Increasingly, developing countries in need of security assistance face legally mandated cut-off of aid because of their payment arrearages. Congress has repeatedly expressed concern about the mounting debt problems of many developing countries. Placing FMS on-budget will make concessional rate loans possible and allow us to design a comprehensive security assistance program which reflects the reality of a country's financial situation. Such a step is a logical outgrowth of our three year effort to improve the complementarity of economic and military assistance.

It should be emphasized that the U.S. also derives substantial benefits from placing FMS on-budget. On-budget financing, enables us to provide a program of greater economic value to the recipient while at the same time reducing overall military assistance levels in the U.S. budget. In fact, FY 85 country totals are over $450 million dollars less than those proposed in FY 84.

Economic need and the ability of a country to repay will be the primary criteria in determining who receives concessional FMS interest rates just as it is in determining who receives grant military assistance. We now plan to provide these concessional loans at a five percent interest rate, to be reviewed at the time funds are allocated.

The Security Assistance Programs. Military assistance in FY 1985 totals $6.359 billion. Budget authority and outlays obviously will rise from FY 1984 -- due to the shift of FMS on-budget -- but overall, military assistance will fall.

Our Economic Support Fund request totals $3.438 billion, a $250 million increase over FY 1984. This is almost entirely related to additional requirements for Central America.

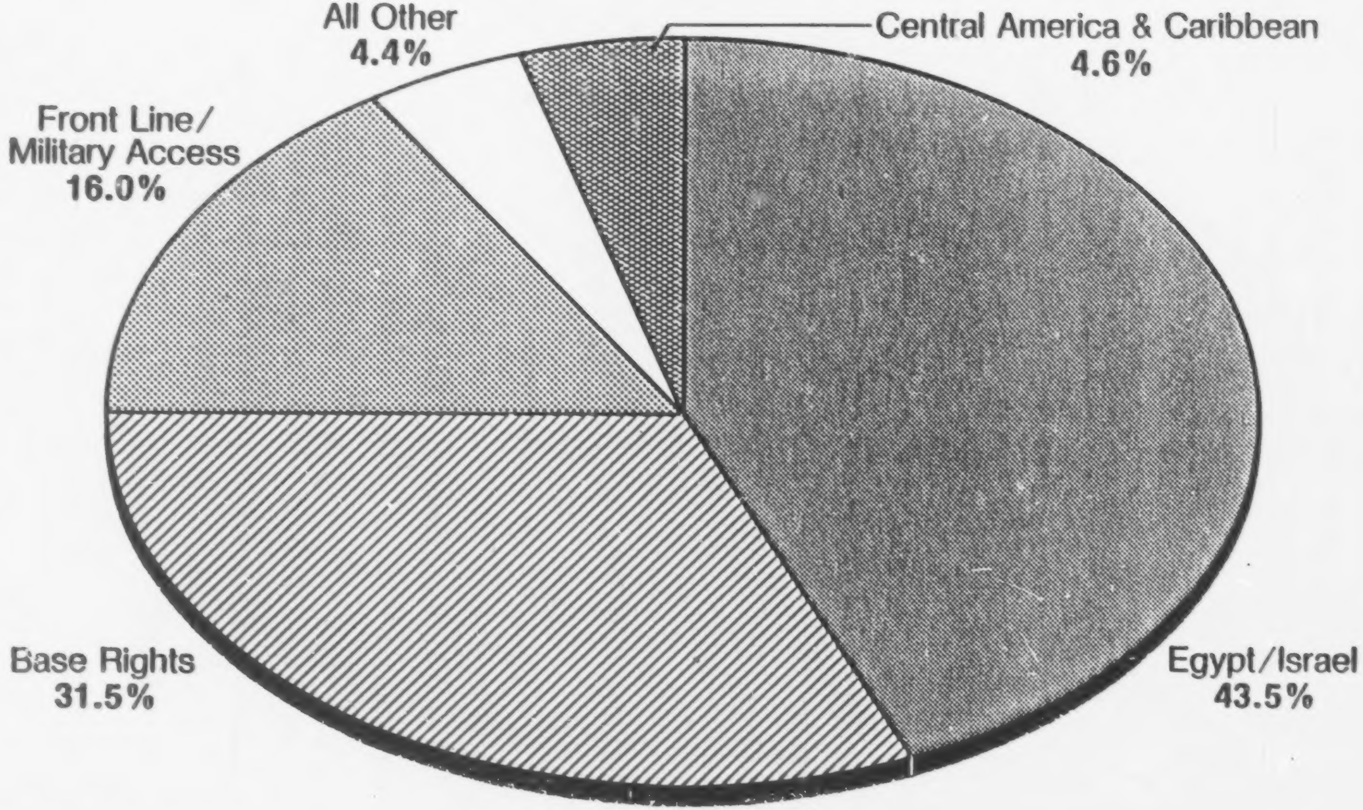
There are five security assistance programs for which the Administration is requesting funding in FY 1985. The largest of the five programs is the FMS financing program which facilitates the purchase of U.S. military equipment, spare parts and training. The total FMS direct credit request for FY 1985 is $5.1 billion for 26 countries. Thirty-nine percent, or $1.99 billion, would be provided at the Treasury rate of interest to ten countries. Another $538.5 million or 11 percent, would be provided to 16 countries at concessional interest rates. Those countries we are proposing to receive concessional rates include Turkey, El Salvador, Jordan, the Philippines and Morocco.

Another significant new element is that all FMS financing to Israel and Egypt would be forgiven. Israel would receive 27 percent, or $1.4 billion, of the total FMS financing request. Egypt, the second largest recipient after Israel, would receive 23 percent, or $1.175 billion. (See Chart A.) For over a decade these two programs have received the largest single share of our FMS financing program. The need is no less great in FY 1985. Yet in both countries debt payments are a major economic constraint, consuming more than $0.35 of each $1.00 in export earnings. FMS financing payments are a significant fraction of that sum. By shifting to all grant programs, we slow the spiraling increase in FMS repayments and can actually reduce program size without affecting its integrity.

Another major security assistance program is the Economic Support Fund (ESF) which comprises approximately 35 percent, or $3.44 billion, of our total program for FY 1985. ESF provides loans or grants to promote political and economic stability in countries of special economic, political or security interest to the U.S.

(CHART A)

Military Assistance By Category
1985 Proposed



The Military Assistance Program (MAP) provides grant funding for purchases of defense articles and services. We are requesting $924.5 million for countries which are truly needy but would find it difficult to repay.

International Military Education and Training (IMET) provides grant funds for professional military training. At $60.9 million IMET represents less than one percent only a small fraction of our FY 1985 request. Nevertheless, it is one of our most cost-effective programs.

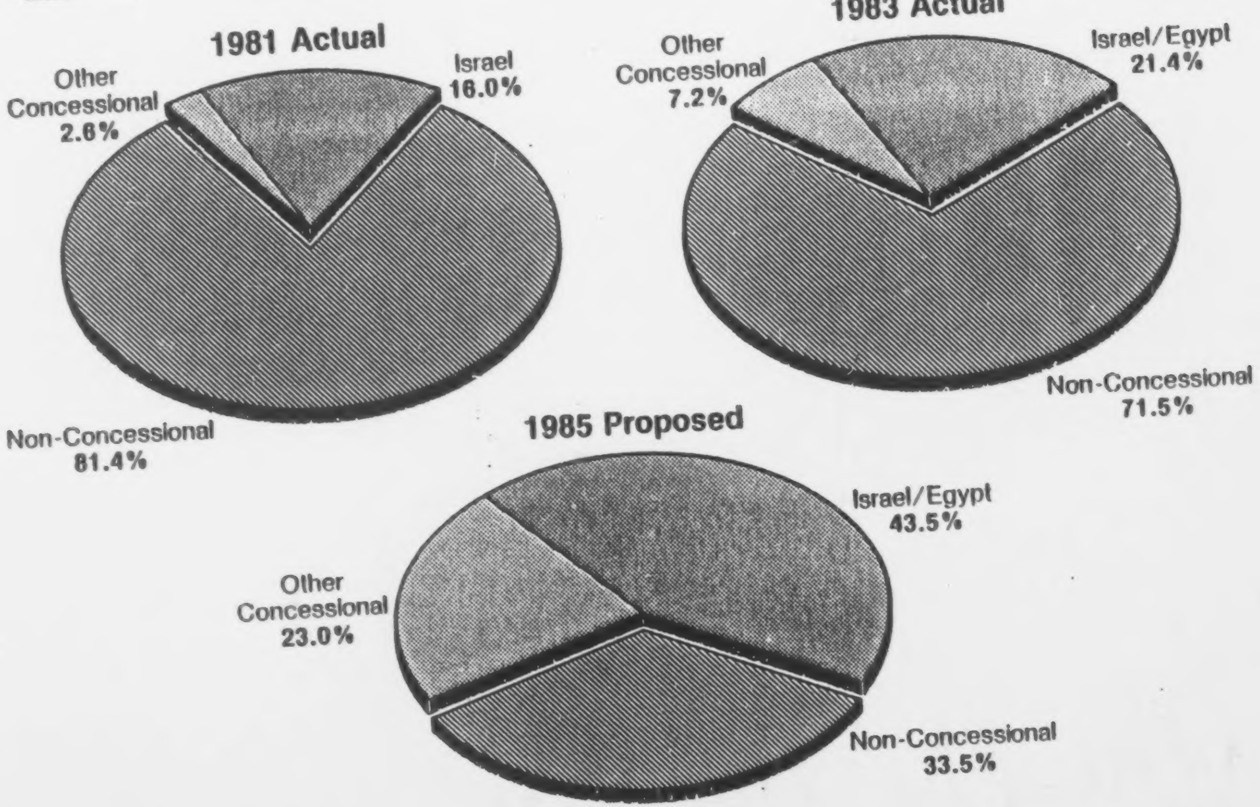
The small Peacekeeping Operation (PKO) account provides support for multilateral peacekeeping activities in the Sinai, Cyprus, and Grenada. We are requesting $49 million for the PKO for FY 1985.

Regional Programs

Chart B indicates that overall our military assistance is focussed primarily on countries of major strategic importance to the U.S. such as Israel, Egypt and Pakistan. It also centers, however, in countries with which we have security agreements necessary to ensure our ability to move forces overseas when needed, such as Korea and the Philippines. The following is a description, region by region, of our security assistance objectives and the programs that we have proposed for FY 1985.

(CHART B)

Military Assistance Concessionality



Central America. As recommended by the Bipartisan Commission, an increased level of resources for Central America needs to be provided predictably, beginning immediately and extending over the next five years, to support a balanced and mutually reinforcing mix of economic, political, diplomatic and security activities to be pursued simultaneously. We support this comprehensive approach to the promotion of democratization, economic growth, human development and security in Central America. We are therefore proposing a multi-year commitment for non-military assistance programs beginning in FY 1985 to build upon the proposed FY 1984 supplemental.

The provision of military assistance also needs to be predictable and responsive to urgent needs. We are not requesting multi-year military assistance. Nevertheless, in order to provide a shield to protect political, economic and social development in Central America, the only major increase proposed for our world-wide security assistance funding levels for FY 1985 is for Central America.

Over 70 percent of proposed FY 1985 security assistance for Central America is ESF assistance in order to address the severe economic crisis which I have already out-lined and which has been so cogently described by the Bipartisan Commission. We plan to devote 25 percent, or $222 million, to MAP grants to help support democratic forces in Central America. Another $30 million in FMS concessional credits is planned along with $3.9 million in IMET.

Following the recommendations of the Kissinger Commission, the largest amount of FY 1985 Central American military assistance, or $132.5 million, is proposed for El Salvador. In addition to IMET, MAP funds would be used to purchase badly needed training and equipment. We propose $210 million in ESF to provide the foreign exchange necessary for the importation of raw materials and intermediate goods by industry and business.

Honduras would receive 28 percent, or $61.3 million, of MAP funds proposed for Central America in order to continue the implementation of the Honduran program of selective modernization and expansion of its armed forces. $75 million in ESF would provide fast-disbursing non-project assistance indispensable to the stabilization of the economy and the resumption of economic growth.

Additionally, we propose $160 million in ESF for Costa Rica and $20 million for Panama for balance of payments support. We are proposing lesser amounts of military assistance for the Regional Military Training Center in Honduras, and for Belize, Costa Rica and Panama. We also propose $10 million in FMS concessional credits, $300 thousand in IMET and $35 million in ESF for Guatemala. Disbursal of these funds would be contingent on continued progress in returning to elected democratic processes and improved human rights performance.

NEAR EAST. One of our highest priorities continues to be the furtherance of the Middle East Peace process. There are no quick and easy solutions for achieving peace and stability in this volatile region.

Our security assistance funds play a crucial role in the quest for peace. Egypt and Israel, the principal participants in the peace process, remain the two largest single recipients of our proposed FY 1985 security assistance. U.S. assistance is aimed at ensuring their security and economic well-being as they continue to play their respective roles in the pursuit of the goals foreseen at Camp David. Because our proposal to forgive all FMS loans provides greater financial value than the mix of past years, funding levels for Israel and Egypt can decrease without harming program quality. There is general agreement that the new levels and terms will achieve our common goals. Israel and Egypt would also receive $850 million and $750 million respectively in ESF assistance to assist in strengthening their economies.

Clearly, peace in the Middle East cannot be achieved in the face of continuing unresolved conflict in Lebanon. We have reached a critical point. We have been training and equipping the Lebanese Army so that it can become an effective instrument in the Lebanese Government's struggle to regain sovereignty over its territory and to restore stability. The future of our program there is unclear and our modest FY 1985 request is contingent on improvement in the situation. We seek $15 million in FMS financing at Treasury rates, $20 million in ESF and $800 thousand in IMET.

Jordan is also an important factor for stability in the Middle East. Our proposed FY 1985 program is designed to help Jordan meet the threat from its potentially aggressive neighbor, Syria. Syria's military strength has increased substantially as a result of infusions of Soviet military aid. The requested $117 million in security assistance is intended to help modernize Jordan's armed forces, to bolster its out-numbered and out-gunned air and ground forces, and to support economic development activities. Of that total we are proposing $95 million in FMS financing at both concessional and Treasury rates, $2 million in IMET and $20 million in ESF assistance.

We are also requesting $35 million to help carry out the highly important Peace Keeping Operations (PKO) of the Multinational Force and Observers in the Sinai.

NORTH AFRICA/INDIAN OCEAN. The Persian Gulf constitutes a major source of energy for the free world. This region is simultaneously threatened by Soviet encroachment through Afghanistan, Libyan subversion in Northern Africa, and by radical forces from within. Through our security assistance, we help to improve the security of these countries and to facilitate negotiation of military access and transit rights for U.S. forces necessary to protect these crucial oil supplies in times of crisis.

Our security assistance program for Pakistan is a tangible demonstration of U.S. support for Pakistan's firm stand as it faces the continuing Afghan crisis and Soviet efforts to weaken Pakistan's resolve. Additional U.S. security assistance is directed to Oman, strategically situated on the Gulf of Hormuz, to improve its defense forces, and to the Yemen Arab Republic with its strategic location on the Bab El-Mandeb Straits and the Southwest border of Saudi Arabia. Yemen is threatened by a Marxist-led insurgency supported by South Yemen and Libya.

Kenya and Somalia, located along the Indian Ocean littoral, are important to U.S. security interests on the Horn of Africa, but these two countries have large debt burdens. Thus we propose all grant assistance designed to help them to develop defense capabilities, while avoiding undue burdens to their fragile economies.

In the same region, Sudan on the Red Sea, and Morocco and Tunisia in North Africa face threats of subversion or aggression derived from or supported by Libya's Mu'ammar

Qadhafi. U.S. security assistance helps these countries in their efforts to maintain stability in the face of these threats. For several of these countries, grant ESF is a major component in support of their IMF standby programs without which the programs could not proceed.

EUROPE AND NATO. Europe's southern flank is a critical part of NATO, vital to hopes for peace and security in neighboring regions. Greece and Turkey lag behind other NATO countries in military strength and their armed forces are in urgent need of modernization. A new agreement for continued use by the U.S. of military facilities in Greece was signed last year. This agreement and our security assistance provide the basis for maintenance of our bilateral defense cooperation with Greece in support of NATO objectives.

Military assistance proposed for Turkey will help to upgrade defense capabilities, and to meet security needs and NATO modernization and force goals. The proposed level is critical to permit continuation of the effort to modernize major equipment lines, in particular the F-16 fighter aircraft purchased last year. Turkish armed forces continue to suffer from serious equipment obsolescence, and would have difficulty confronting a Warsaw Pact threat. We are also proposing ESF assistance for Turkey. Although Turkey's economy is continuing its recovery from near bankruptcy, the speed of that recovery has slowed in the past year.

Portugal, a charter member of NATO, is a strategically important and reliable ally. U.S. rights for the use of critical Portuguese facilities in the Azores were extended under a new Mutual Defense Agreement signed in December of 1983. The objectives of the security assistance program for

Portugal are to support the continuing consolidation of its democratic institutions, to help Portugal modernize its military and to assist as it confronts continuing economic problems.

A NATO ally since July 1982, Spain provides the U.S. with access to vital air and naval facilities. Our security assistance underlines our support for Spain's progress in reinforcing democratic institutions and helps Spanish Armed Forces meet NATO modernization standards.

In addition to ESF assistance to Cyprus to continue the scholarship program initiated in FY 1981, we are also proposing to continue our support of the United Nations forces in Cyprus.

ASIAN SECURITY. Past investments in the economies and security of our East Asian and Pacific friends have resulted in stability and economic growth in much of the area. But the picture is not entirely bright and some countries of great strategic importance to the U.S., the Philippines for example, are suffering from a slowing of economic growth and burdensome external debts. The vitality and progress of others are threatened by the heavy military buildup of the Soviet Union, North Korea and Vietnam.

Our security assistance helps to protect the front-line states of Korea and Thailand. It sustains our treaty relationships with Korea, the Philippines and Thailand. Security assistance also facilitates continued use of military bases and facilities in the Philippines.

For FY 1985 we plan to allocate some 92 percent of our

East Asia/Pacific regional security assistance to Korea, the Philippines and Thailand to enhance the strategic posture of the U.S. and threatened friends.

AFRICA. As in FY 1984, the security assistance programs that we are proposing for Africa are all grant. Much of Africa faces a continuing economic crisis, compounded by drought. For this reason, we plan to devote $391.5 million in ESF to 15 programs in Sub-Saharan Africa. The Administration is also initiating in FY 1985 an Economic Policy Initiative for Africa, which is a special, five year program utilizing development assistance funds to provide special assistance to a few African nations undertaking extensive economic reforms to promote production and free market pricing.

The prolonged economic crisis in Africa can magnify or precipitate security problems. The Soviet Union and its proxies continue to exploit regional conflicts to advance their position in the area. Libya has twice invaded Chad. In Southern Africa, there are continuing conflicts which we and our allies are attempting to resolve through negotiations.

OTHER SECURITY INTERESTS. The Eastern Caribbean area is also of strategic importance to the United States. These islands are hard-pressed to meet the challenge of independence at a time when they face the worst economic recession the area has experienced since the 1930s. As illustrated by recent events in Grenada, these small states confront both internal and external security challenges. The Cuban presence on Grenada has been removed through the efforts of the Organization of Eastern Caribbean States, Barbados, Jamaica and the U.S.. However, continued peacekeeping operations assistance to the Caribbean Peace Force (CPF) is required.

Additional assistance, primarily economic, is needed throughout the Caribbean area to assist in creating an environment of political and economic stability and growth. We are requesting $5 million for the CPF, as well as $20 million in ESF, $5 million in MAP, and $300 thousand in IMET for the Eastern Caribbean.

Other areas of the Caribbean and South America are also included in the FY 1985 request. Many of those countries have long-term economic problems and as Hemispheric neighbors, are important to U.S. security interests. They need to upgrade antiquated defense establishments to deal with real security concerns. The major proposed recipients are the Dominican Republic and Jamaica.

FY 1985 LEGISLATIVE PROPOSALS.

For fiscal year 1985 we are proposing only a few new legislative proposals, together with certain proposals not acted upon over the last two years. We have attempted to limit the number and scope of legislative proposals to those most important to the effective operation and administration of the programs. We believe that those which we have proposed are significant and urge their adoption. I trust that the Committee will consider favorably, as it did last year, those proposed changes that seek to improve the management and execution of the security assistance program.

New Proposals. First, we have proposed a new Section 23 of the Arms Export Control Act (AECA), which authorizes the provision of FMS direct credits. The President's FY 1985 budget proposes to shift the entire FMS financing program on-budget and proposes that direct credits for selected countries be provided at a concessional rate of interest. Both aspects of this proposal can be implemented under current authorities once Congress appropriates the funding requested. The suggested amendments, however, would adjust these authorities to reflect more clearly and accurately the changed nature of the FMS direct program and allow the program to be managed more efficiently.

We also propose to amend the AECA to encourage IMET training in maritime search and rescue, the operation and maintenance of aids to navigation, port security, at-sea law enforcement, international maritime law, and general maritime skills and to exempt such training from the general prohibition on law enforcement training. This grows out of an initiative of the committee last year.

Another proposal would add Korea in FY 1984 and 85, and Portugal and the Philippines in FY 1985 to the countries which are now authorized extended repayment terms of ten years grace and twenty years repayment of principal on FMS guaranteed loans. Countries would be authorized such terms only on direct Treasury rate credits in FY 1985, not on credits provided at a concessional interest rate.

Proposals Resubmitted. We regard the proprosal to eliminate the multi-tier price structure on the sale of foreign military training to be particularly important. We would substitute a single price for all FMS-sold training. Such action would reduce confusion, be more equitable, and reduce over-all administrative costs.

Several other proposals which we are resubmitting this year would improve the management of our security assistance. In the late 1970's a long overdue reduction in the number of overseas military personnel took place, responding to lessened needs. Now, however, many programs have grown in size and importance. We are requesting specific statutory authorization to increase the number of overseas military personnel by adding eight new countries to the 12 currently authorized by statute to have more than six uniformed U.S. personnel. These include Pakistan, Tunisia, Yemen, Lebanon, Sudan, El Salvador, Honduras and Venezuela.

Current law requires that countries that sell or dispose of U.S. equipment granted directly by the U.S. under the MAP program return the proceeds to the U.S. As a result, countries maintain obsolete equipment in their inventory, spending scarce resources on costly repairs. We are proposing to add a waiver authority that would allow the President, on a country-by-country basis, to permit countries to keep the proceeds of sales when it is in the U.S. national interest to do so. All applicable legal and policy controls on third country transfers would continue to apply to any sales of this equipment.

Other proposals we are once again requesting for FY 1985 include:

--Reciprocal provision, without charge, of catalog data and services to NATO.

--Removal of certain prohibitions against assistance to China.

--Streamlining of reprogramming requirements.

--Proportional application of earmarks.

--Permitting reciprocal no-cost exchange training on a one-to-one basis.

Other Provisions. We are also requesting $274 million for FY 1985 in order to maintain adequate reserves in the Guaranty Reserve Fund against defaults and rescheduling of outstanding loans guaranteed pursuant to AECA provisions. This will enable the fund to maintain fiscal integrity.

Another proposal seeks to amend the Foreign Assistance Act of 1961 to establish a ceiling of $248 million in FY 1985 on the aggregate value of additions made in FY 1985 to overseas stockpiles of defense articles. We are also requesting a supplemental authorization to permit stockpile additions of $125 million in FY 1984. These defense articles are those other than in NATO countries which are designated as war reserve stocks for allied or other foreign forces.

CONCLUSIONS

Today I have touched on the highlights of our FY 1985 security assistance program and related legislation that will permit the more effective and efficient management of these programs. Mr. Chairman, the Administration has attempted to implement recommendations which you and other members of the Carlucci Commission made with regard to security assistance.

We believe that a better mix of economic and military assistance has been achieved in the overall foreign aid program proposals for this year, while permitting us to reduce the security assistance portion to a lower level than would have been the case under previous practice. This has been facilitated by the decision to place FMS financing on-budget and extend FMS concessional loans to needy countries.

The Administration has also responded to the concerns of the Kissinger Commission about security and economic needs in Central America. We hope that Congress will give both the 1984 supplemental and the proposed 1985 program full support.

DEPARTMENT OF DEFENSE

DEFENSE SECURITY ASSISTANCE AGENCY

STATEMENT OF LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

LINK BETWEEN SECURITY ASSISTANCE AND NATIONAL DEFENSE

Senator KASTEN. General Gast, we have had an opportunity to work together now for a couple of years, and I want to say that this committee has enjoyed working with you. You have been helpful in many ways.

Do you have a statement of any kind that you would like to give to the committee?

General GAST. I will support the remarks of Mr. Schneider, and simply make two or three brief comments on a couple of things.

As you know, the Secretary of Defense feels very strongly about the linkage between security assistance and national defense.

Our programs help us accomplish many strategic objectives, and maintain foreign bases to improve power projection capabilities, to gain and retain access to foreign air and port facilities, strengthen the coalition war fighting capability of our friends and allies, strengthen the ability of friendly countries to cope with the Soviet-supported forces, and nurture foreign policy objectives such as the Middle East peace process.

BUDGET REQUEST AND CENTRAL AMERICA SUPPLEMENTAL

Regarding the Central American supplemental, we support this very strongly. We note that the economic aid is far in excess of the military assistance, and we believe that that is correct, but feel that the provision of additional funds is particularly urgent at this time, and without these funds the stalemate will surely continue.

Regarding our fiscal year 1985 request, in those particular initiatives, we support the request to place all FMS loans on-budget. We believe that the IMET program at a $61 million level is justifiable. It has had tremendous pay-offs. It is a program that has withstood the scrutiny over the years, and it seems not to be questioned as a very valuable program.

In other requests, we are asking again that in addition to the $72,500 that has been authorized recently, and over the last several years for representational purposes, we have the authority to use FMS administrative funds to raise the total to $147,500. Also, we would like to see the additional IMET general cost line raised from $125,000 to a total of $225,000, which is a very useful and very needed program. In both cases we would avoid our people taking money out of pocket to provide for valuable services.

We again ask for the support of the 506(a) reimbursement. We have had over $100 million taken out of DOD for defense articles and services, and we would like to see that replenished rather than add to the burden of the Defense Department and to our readiness.

So far as the SDAF goes, we have now received $475 million in obligational authority. There is a recent GAO report, which you may have heard about, that gives it relatively high marks. It points out some things that we could work on, and we are already implementing many of those recommendations. We would ask for fiscal year 1985, $325 million more in obligational authority.

So far as the Guaranty Reserve Fund, we believe that now is the time to act to maintain the solvency of it, so we are able to provide for reschedulings the primary reason why we must replenish the GRF. It is down to some $737 million now but varies from time to time. We used a formula of 8 percent plus 2 percent markup in determining the $274 million request for fiscal year 1985.

That completes my comments.

[The prepared statement of General Gast follows:]

PREPARED STATEMENT OF LT. GEN. PHILIP C. GAST
DIRECTOR
DEFENSE SECURITY ASSISTANCE AGENCY

INTRODUCTION

THANK YOU MR. CHAIRMAN.

SECRETARY SCHNEIDER HAS JUST PROVIDED THE COMMITTEE A DETAILED AND COMPREHENSIVE REVIEW OF THE PRESIDENT'S REQUEST FOR AN FY 1984 SUPPLEMENTAL FOR CENTRAL AMERICA AND THE FY 1985 PROGRAM FOR SECURITY ASSISTANCE. I WILL CONCENTRATE MY REMARKS ON WHAT DEFENSE BELIEVES ARE THE MAJOR STRATEGIC OBJECTIVES UNDERLYING THE PROGRAM RECOMMENDATIONS. THEN, I WOULD LIKE TO HIGHLIGHT A FEW AREAS OF PARTICULAR INTEREST TO THE COMMITTEE.

OUR POSITION IN DOD HAS ALWAYS BEEN THAT THE SECURITY ASSISTANCE AND ARMS SALES PROGRAMS REPRESENT THE OVERSEAS COUNTERPARTS OF OUR OWN DEFENSE EFFORTS AND ARE NO LESS AN INVESTMENT IN U.S. NATIONAL SECURITY THAN THE PROGRAMS FOR THE DEPARTMENT OF DEFENSE. THESE PROGRAMS REAP HIGH RETURNS IN SECURITY AND GOOD WILL, YET THEY ARE NOT A DRAIN ON THE U.S. TAXPAYER.

PROGRAM RATIONALES

IN ORDER TO BETTER UNDERSTAND HOW WE PROGRAM COUNTRY FUNDS, LET ME REVIEW THE PRINCIPAL RATIONALES BEHIND OUR REQUEST. OUR PROGRAMS ARE DESIGNED TO:

1. PROVIDE ASSISTANCE TO THOSE COUNTRIES WHICH HAVE AGREED TO RETAIN U.S. BASES ON THEIR TERRITORY. THESE AGREEMENTS NOT ONLY GIVE THE U.S. AN ABILITY TO PROJECT POWER FAR FROM OUR SHORES, THEY ALSO ENHANCE OUR ABILITY TO OPERATE WITH THE ARMED FORCES OF OTHER COUNTRIES.

THE IMPORTANCE OF OUR BASE AGREEMENTS WITH PORTUGAL, SPAIN, GREECE, TURKEY AND PHILIPPINES IS REFLECTED IN THE SECURITY ASSISTANCE WE PROVIDE TO THESE COUNTRIES.

2. WE ALSO HAVE ARRANGEMENTS WITH A NUMBER OF OTHER COUNTRIES TO PERMIT OUR MILITARY USE OF THEIR AIR OR PORT FACILITIES. THESE ARRANGEMENTS ENABLE US TO SUSTAIN OPERATIONS ABROAD AND HELP IMPROVE OUR POWER PROJECTION CAPABILITIES. ARRANGEMENTS WITH OMAN, SOMALIA AND KENYA EXEMPLIFY THE BENEFITS WE DERIVE FROM OUR INTERNATIONAL ASSISTANCE PROGRAMS.

3. OUR SECURITY ASSISTANCE PROGRAMS ALSO ARE INTENDED TO ASSIST FRIENDLY COUNTRIES THREATENED BY SOVIET, WARSAW PACT OR SOVIET-SUPPORTED FORCES. RECIPIENTS IN THIS CATEGORY INCLUDE TUNISIA, PAKISTAN, KOREA, TURKEY, EL SALVADOR, HONDURAS AND SEVERAL OTHERS.

4. OUR ASSISTANCE, IN GENERAL, HELPS COUNTRIES MAKE BETTER USE OF THEIR OWN RESOURCES IN DETERRING REGIONAL THREATS OR COPING WITH INTERNAL THREATS THAT MAY BE INSPIRED OR SUPPORTED BY OUTSIDE FORCES. SOME OF THESE COUNTRIES INCLUDE SUDAN, TUNISIA, MOROCCO AND THE CARIBBEAN NATIONS.

5. IN ADDITION TO THESE DEFENSE AND SECURITY-RELATED MOTIVES FOR SECURITY ASSISTANCE, OUR PROGRAMS ALSO SUPPORT MAJOR FOREIGN POLICY GOALS SUCH AS THE PURSUIT OF PEACE IN THE MIDDLE EAST. THIS OBJECTIVE IS SO IMPORTANT THAT WE CONTINUE TO RECOMMEND THE LARGEST COUNTRY ASSISTANCE LEVELS FOR ISRAEL AND EGYPT.

SECURITY ASSISTANCE ON ITS OWN CANNOT BRING ABOUT PEACE OR REMOVE THE ORIGINS OF REGIONAL INSTABILITY OR EVEN HOLD BACK THREATS FROM SOVIET OR SOVIET-SUPPORTED FORCES. IT CAN, HOWEVER, SHAPE CONDITIONS IN SUCH A WAY THAT DIPLOMATIC AND POLITICAL EFFORTS CAN TAKE PLACE.

6. SECURITY ASSISTANCE AND ARMS SALES ALSO BRING

MODEST DOMESTIC BENEFITS TO THE U.S. ECONOMY. WE ESTIMATE THE FOREIGN MILITARY SALES HAVE SAVED THE MILITARY SERVICES SOME $3 BILLION BETWEEN FY 1978 AND 1982, PRIMARILY FROM ECONOMIES OF SCALE AND VARIOUS RECOUPMENTS OF SUNK COSTS. WE ALSO ESTIMATE THAT MORE THAN HALF A MILLION JOBS ARE SUSTAINED BY THE FMS PROGRAM ALONE AND THAT OVER THE PAST THREE YEARS THE PROGRAM HAS BROUGHT SOME $30 BILLION INTO THE U.S. TREASURY.

PROGRAM DEVELOPMENT

THE PROPOSALS IN THE SUPPLEMENTAL FOR CENTRAL AMERICA AND THE FY 1985 ANNUAL REQUEST ARE THE RESULT OF EXTENSIVE PREPARATION AND CAREFUL THOUGHT. THE ANNUAL SECURITY ASSISTANCE RECOMMENDATIONS TAKE MORE THAN NINE MONTHS OF SUSTAINED EFFORT AND INVOLVE SEVERAL GOVERNMENT AGENCIES BOTH HERE IN WASHINGTON AND IN THE FIELD. OUR COUNTRY PROPOSALS DO NOT CONTAIN UNNECESSARY EXTRAS AND ARE TAILORED TO KNOWN COUNTRY REQUIREMENTS.

THE MOST IMPORTANT FACTOR SHAPING THE PRESIDENT'S SECURITY ASSISTANCE REQUEST IS OUR JUDGMENT ON HOW BEST A SPECIFIC PROGRAM FURTHERS U.S. FOREIGN POLICY AND SECURITY INTERESTS. CONTRARY TO SOME BELIEFS, MOST FOREIGN LEADERS DO NOT MAKE EXORBITANT REQUESTS OR UNREASONABLE DEMANDS ON THE U.S. MOST ARE SENSITIVE TO THEIR ABILITY TO ABSORB NEW EQUIPMENTS OR DEFENSE ARTICLES AND ALMOST ALL ARE AWARE OF THEIR ABILITIES TO REPAY THE LOANS WE PROVIDE. VERY FEW COUNTRIES OUTSIDE THE DEVELOPED NATIONS AND A FEW AFFLUENT DEVELOPING COUNTRIES HAVE SUFFICIENT RESOURCES OF THEIR OWN AND MUST LOOK TO US--OR OTHERS--TO ASSIST THEM IN MEETING THEIR MILITARY AND SECURITY REQUIREMENTS.

THE FY 1984 SUPPLEMENTAL FOR CENTRAL AMERICA

THE PRESIDENT HAS SUBMITTED A SUPPLEMENTAL REQUEST FOR CENTRAL AMERICA. THIS REQUEST PARALLELS CLOSELY THE RECOMMENDATIONS OF THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA AND WE BELIEVE THAT ADDITIONAL RESOURCES ARE ESSENTIAL IF

ESTABLISHED GOVERNMENTS ARE TO DEVELOP THEIR ABILITY TO COUNTER TERRORISM, SUBVERSION AND AGGRESSION IN THE REGION.

THE SECURITY ASSISTANCE PROPOSALS REPRESENT A SMALL PORTION OF THE OVERALL REQUEST SINCE MOST OF THE FUNDS BEING SOUGHT FOR CENTRAL AMERICA WILL BE FOR ECONOMIC ASSISTANCE. THIS WOULD CONTINUE OUR PRACTICE IN THE PAST WHEN OUR ECONOMIC ASSISTANCE LEVELS SURPASSED THOSE FOR MILITARY ASSISTANCE. NEEDLESS TO SAY, SECURITY AND ECONOMIC DEVELOPMENT COMPLEMENT ONE ANOTHER. THE LATTER CAN BEST TAKE PLACE IN AN ENVIRONMENT FREE FROM VIOLENCE, TERROR AND TURMOIL. ON THE OTHER HAND, SECURITY WITHOUT REAL PROGRESS IN ECONOMIC, POLITICAL OR SOCIAL DEVELOPMENT WOULD BE EQUALLY UNREWARDING TO THE U.S. AND TO THE PEOPLE IN CENTRAL AMERICA. IN EL SALVADOR, WE HAVE MADE OUR CONCERNS FOR HUMAN RIGHTS AND POLITICAL REFORMS VERY CLEAR AND FEEL CONFIDENT THAT THE HUMAN RIGHTS RECORD THERE WILL CONTINUE TO IMPROVE. IT IS NOT IN OUR INTEREST OR IN THE INTEREST OF THE PEOPLE OF THE REGION TO RESOLVE THEIR ISSUES AT THE POINT OF A GUN OR TO HAVE TOTALITARIAN GOVERNMENTS SUBSTITUTE FOR REFORM ALREADY UNDERWAY.

THE FY 1984 SUPPLEMENTAL REQUEST INCLUDES MILITARY ASSISTANCE PROGRAM (MAP) FUNDS FOR EL SALVADOR ($178.9M), HONDURAS ($37.5M), COSTA RICA ($7.85M), PANAMA ($10M) AND THE REGIONAL MILITARY TRAINING CENTER ($25M) TOTALING $259.05 MILLION. MORE THAN HALF THE REQUEST IS FOR EL SALVADOR BECAUSE THE SITUATION THERE IS MOST SERIOUS.

WE AGREE WITH THE BIPARTISAN COMMISSION THAT THE THREAT TO THE U.S. FROM CENTRAL AMERICA IS REAL AND THAT WE OUGHT TO ACT QUICKLY AND DECISIVELY TO COPE WITH THE CRISIS IN THE REGION. IF WE DELAY MUCH LONGER, THE MORALE OF THE SALVADORAN FORCES WILL BE UNDERMINED, THE DELIVERY OF CRITICAL AMMUNITION AND EQUIPMENT WILL BE STRETCHED OUT EVEN FURTHER, THE IMAGE OF THE FIGHTING CAPACITY OF THE ARMED FORCES WILL BE WEAKENED AND THE STALEMATE IN THE CIVIL WAR MAY WELL BE PERPETUATED FOR SOME TIME.

THE FY 1985 REQUEST

I WANT TO EXPRESS MY APPRECIATION TO THE CONGRESS FOR ITS SUPPORT OF THE ADMINISTRATION'S SECURITY ASSISTANCE REQUESTS OVER THE PAST YEARS. I BELIEVE THE U.S. IS FAR MORE SECURE BECAUSE OF THESE ACTIONS. LAST NOVEMBER, THE CONGRESS APPROVED FUNDING LEVELS CLOSE TO THOSE REQUESTED BY THE PRESIDENT AND LEFT MOST OF THOSE FUNDS WITHOUT EARMARKINGS. THIS HELPED ASSURE OUR FRIENDS ABROAD THAT THEY COULD COUNT ON THE U.S. TO ASSIST THEM.

THE FY 1985 SECURITY ASSISTANCE REQUEST CONTINUES PREVIOUS YEAR PROGRESS WITH NO MAJOR COUNTRY INCREASES, APART FROM THOSE WE ARE REQUESTING FOR CENTRAL AMERICA. THE MAJOR NEW INITIATIVE IN THIS YEAR'S REQUEST IS THE PROPOSAL TO SHIFT FMS CREDIT FINANCING FROM "OFF-BUDGET" TO "ON-BUDGET." THIS WOULD GIVE US GREATER FLEXIBILITY IN CHARGING LOWER INTEREST RATES TO COUNTRIES BELEAGUERED WITH U.S. DEBT PAYMENTS, WHILE HELPING THEM TO MEET THEIR MILITARY REQUIREMENTS. THE ON-BUDGET PROPOSAL WOULD RESULT IN AN FMS CREDIT PROGRAM COMPOSED OF:

- CREDITS LET AT TREASURY MARKET RATES FOR SOME COUNTRIES ($1987M);
- LOW INTEREST CONCESSIONAL LOANS ($539 M); AND
- GRANTS OR FORGIVEN CREDITS FOR ISRAEL AND EGYPT ($2575 M).
- THERE ARE ADDITIONAL FUNDS IN THE GRANT MAP ($925M) and IMET TRAINING ACCOUNTS ($61M)

THE PROPOSAL, IF ENACTED, WOULD REQUIRE A SHIFT OF SOME $4.3 BILLION IN BUDGET AUTHORITY OVER THE FY 1984 REQUEST; HOWEVER, THE ESTIMATED OUTLAY IMPACT IN FY 1985 WOULD BE CLOSER TO $1.6 BILLION. THE TOTAL MILITARY ASSISTANCE REQUEST FOR FY 1985 EQUALS $6.4 BILLION, IF THE REQUEST FOR PEACEKEEPING OPERATIONS ($49M) AND FOR REPLENISHING THE GUARANTY RESERVE FUND ($274M) ARE ADDED IN; WITHOUT THE LATTER TWO, THE FY 1985 REQUEST IS ACTUALLY LESS THAN THE FY 1984 CRA TOTAL.

THE ON-BUDGET INITIATIVE THEREFORE PROVIDES US THE NEEDED FLEXIBILITY TO ADJUST SECURITY ASSISTANCE PROGRAMS TO THE ECONOMIC NEEDS AND ABILITIES OF RECIPIENT NATIONS THROUGH A MIX OF GRANTS, CONCESSIONAL LOANS AND NEAR MARKET RATE FINANCING. IT IS A STEP IN THE DIRECTION OF EASING THE DEBT-SERVICING REQUIREMENTS OF COUNTRIES WHICH WILL BE REPAYING PAST AND PRESENT FMS LOANS.

I SHOULD ALSO NOTE THAT THE FY 1985 FOREIGN AID REQUEST WOULD RETAIN THE SAME 60:40 RATIO OF ECONOMIC TO MILITARY ASSISTANCE AS IN THE PAST FEW YEARS. THIS RELATIVE BALANCE BETWEEN ECONOMIC ($9.4B) AND MILITARY ($6.4B) ASSISTANCE IS APPROPRIATE AND WE, IN DOD, SUPPORT THIS DIVISION IN THE OVERALL FOREIGN AID REQUEST.

I WANT TO THANK THE COMMITTEE FOR ADDING $225 MILLION IN OBLIGATIONAL AUTHORITY TO THE SDAF LAST YEAR; THIS BROUGHT TOTAL AUTHORITY THROUGH FY 1984 TO $475 MILLION. THE SDAF IS NOW CAPITALIZED AT ABOUT $600 MILLION AND THE AUTHORIZED CEILING IS AT $900 MILLION FOR FY 1984. WE ARE ASKING FOR AN INCREMENT OF $325 MILLION IN OBLIGATIONAL AUTHORITY. NONE OF THESE FUNDS COME FROM THE U.S. TAXPAYER; THEY ARE MADE AVAILABLE TO THE SDAF ACCOUNT FROM RECEIPTS COLLECTED FROM PRIOR FMS SALES. PREVIOUSLY OBLIGATED FUNDS HAVE BEEN USED TO PROCURE HIGH DEMAND ITEMS SUCH AS TANKS, MISSILES, AND RADIOS, AND THESE ITEMS WILL SOON BE AVAILABLE FOR SALE TO FOREIGN COUNTRIES. THIS WILL HELP MINIMIZE THE ADVERSE EFFECTS OF SUDDEN DRAWDOWNS ON U.S. READINESS. THESE ITEMS HAVE BEEN DOCUMENTED IN BOTH THE ANNUAL PROCUREMENT PLANS AND ANNUAL REPORTS TO THE CONGRESS ON THE SDAF.

WE HAVE ALSO REQUESTED $274 MILLION TO REPLENISH THE GUARANTY RESERVE FUND WHICH HAS BEEN DRAWN DOWN TO COVER COUNTRY RESCHEDULINGS AND LATE PAYMENTS. THIS REQUEST IS BEING SUBMITTED TO ENSURE THE FUND DOES NOT FALL TO AN UNACCEPTABLY LOW LEVEL.

IN ADDITION, THE PRESIDENT HAS REQUESTED THAT THE DEPARTMENT OF DEFENSE BE REIMBURSED FOR PAST EMERGENCY DRAWDOWNS OF DEFENSE

ARTICLES AND SERVICES UNDER SECTION 506(a) OF THE FOREIGN ASSISTANCE ACT (FAA). OVER THE PAST THREE FISCAL YEARS, FOREIGN EMERGENCIES, SUCH AS THAT IN CHAD DURING FY 83, LED TO TOTAL DRAWDOWNS FROM THE DEPARTMENT OF DEFENSE VALUED AT $100 MILLION. WE ARE SEEKING REIMBURSEMENT TO DOD FOR $50 MILLION OF THAT AMOUNT IN THE FY 1985 MAP REQUEST. THE SERVICES, FROM WHOM THE DEFENSE ARTICLES AND SERVICES WERE TAKEN, SHOULD NOT BE EXPECTED TO CARRY THE FULL BURDEN OF MEETING EMERGENCY DRAWDOWNS.

WE ARE ALSO REQUESTING APPROPRIATIONS IN THE MAP AND IMET ACCOUNTS FOR REPRESENTATIONAL FUNCTIONS OVERSEAS AND FOR USE IN INFORMATIONAL ACTIVITIES FOR FOREIGN TRAINEES AT HOME. AS IN THE PAST, WE ARE SEEKING A MAP APPROPRIATION OF $72.5 THOUSAND FOR REPRESENTATIONAL FUNCTIONS; WE HOPE TO GET AUTHORITY TO USE FMS ADMINISTRATIVE FUNDS TO AUGMENT THESE MAP APPROPRIATIONS SO THAT OUR OVERSEAS PERSONNEL DO NOT HAVE TO CONTINUE TO PAY FOR THESE EXPENSES FROM THEIR OWN POCKETS.

WE ALSO ARE SEEKING TO RAISE THE AMOUNT AVAILABLE IN THE IMET GENERAL COST LINE TO FUND ACTIVITIES FOR FOREIGN MILITARY STUDENTS RECEIVING IMET TRAINING IN THE U.S. SUCH ACTIVITIES INCLUDE EFFORTS TO PRESENT A BETTER UNDERSTANDING OF U.S. SOCIETY, THE OPERATIONS OF OUR INSTITUTIONS AND THE POSITIVE FEATURES OF OUR WAY OF LIFE AS A COMPLEMENT TO THEIR FORMAL MILITARY TRAINING. SINCE COSTS ARE RISING AND THE NUMBER OF FOREIGN STUDENTS INCREASING, WE ARE REQUESTING $225 THOUSAND, OR ABOUT $25 PER STUDENT, FOR THIS FUNCTION. THIS WOULD STILL BE SUBSTANTIALLY LESS PER CAPITA THAN WE HAD AVAILABLE IN THE RECENT PAST.

CONCLUSION

MR. CHAIRMAN, LET ME CONCLUDE BY SAYING THAT WE DERIVE MANY TANGIBLE AND INTANGIBLE BENEFITS FROM OUR SECURITY ASSISTANCE PROGRAM. SECRETARY SCHNEIDER AND I HAVE TOUCHED ON A NUMBER OF THESE. THE MAJOR CONTRIBUTION OF SECURITY ASSISTANCE FROM A DEFENSE PERSPECTIVE IS THAT IT ENABLES OTHER COUNTRIES TO

COOPERATE WITH THE U.S. IN DEVELOPING WORKING AND VIABLE COLLECTIVE SECURITY ARRANGEMENTS, IN SHARING THE COLLECTIVE BURDEN OF DEFENSE AND IN FURTHERING OUR MUTUAL SECURITY INTERESTS. THESE PROGRAMS ARE LOW COST INVESTMENTS IN U.S. SECURITY AND, TO A LESSER DEGREE, IN THE U.S. ECONOMY. SHORT OF STATIONING U.S. FORCES ABROAD, THE SECURITY ASSISTANCE PROGRAMS PROVIDE THE MOST VISIBLE ASSURANCE OF CONTINUED U.S. READINESS TO STAND BY OUR FRIENDS AND ALLIES.

I KNOW THAT I REFLECT THE VIEWS OF THE SECRETARY OF DEFENSE WHEN I URGE THE COMMITTEE TO GIVE FAVORABLE CONSIDERATION TO THE ADMINISTRATION'S SECURITY ASSISTANCE PROPOSALS FOR FY 1984 AND FY 1985. WE HAVE WORKED CLOSELY WITH THE DEPARTMENT OF STATE IN DEVELOPING THE SUPPLEMENTAL REQUEST AND IN FORMULATING THE FY 1985 ANNUAL RECOMMEDATIONS.

THIS CONCLUDES MY STATEMENT. I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

General Questioning

SUPPORT FOR U.S. POLICY IN U.N. VOTING

Senator Kasten. Thank you.

Mr. Schneider, as you know, the committee has received the report required by an amendment which I offered last year, which details the degree of support from member countries of the United Nations for the U.S. policy.

I agree with the Secretary of State, and also with Ambassador Kirkpatrick, that this is a good tool for us to use in analyzing our bilateral assistance. Although, as they have said, and I agree, this is not the only tool. However, there are a number of countries which, quite frankly, have less than even minimal records of support, and yet we are still providing them with foreign assistance.

For example, Ambassador Kirkpatrick pointed out, there is an interesting list of people who condemned our operation in Grenada, while at the same time refused to condemn the Soviet invasion of Afghanistan. That is a particularly, I think, interesting list.

On that list, we find a number of countries—India, Cape Verde, Cyprus, Mozambique, Upper Volta, Mali. There may be explanations for these votes, but if this question were put to the American people, I think that it is likely that they would suggest that not a dime go to any of these countries.

Will you be taking these factors into account as you allocate the 1985 appropriations, as well as the 1986 request?

U.N. COUNTRIES SUPPORT

Mr. SCHNEIDER. Yes, Mr. Chairman. The action of the Congress in requiring this report has served to highlight the notion that the behavior in international fora of countries with whom we have foreign assistance relationships will be scrutinized.

I think from this perspective, the recipient countries are now on notice that they do not have a free ride in the U.N. or other international fora to heap abuse on the United States without this being duly noted as a concern of Congress.

We understand congressional intent, and we will seek to include consideration of the activities of recipient countries in international fora as part of the overall decision on allocation of foreign assistance resources.

STINGER SALES TO JORDAN

Senator KASTEN. You were at our committee meeting when Secretary Shultz spoke, and the committee expressed a concern about the Stinger sales to Jordan. I would like, if I could, just to go through a couple of more detailed questions.

In the past, we have seen that the terrorists like to use hand-held antiaircraft missiles, such as the Stinger. The Soviet SA–7, I understand, is in the hands right now of several terrorist organizations all over the world, and such groups have tried, so far unsuccessfully, we believe, to get a hold of American missiles of this type.

First of all, is it not true that in the hands of terrorists, the Stinger would pose a serious danger, not only to peace and stability of the region, but also a serious danger to commercial aircraft?

Mr. SCHNEIDER. That is correct.

Senator KASTEN. Before 1967, Jordan promised not to move American supplied M–48 tanks to the West Bank, but as soon as the war started, they violated that agreement and sent them across the Jordan River.

We do not have a whole lot of examples to go back and point to, but under the circumstances, and looking at history, how can we trust Jordanian assurance that they will keep the Stinger out of the hands of terrorists.

Mr. SCHNEIDER. It is a very good question, Mr. Chairman, and I would like to address it at a little bit of length.

In the first instance, the development of hand-held air defense weapons of the Stinger, Redeye, SA–7 variety are now fairly commonplace, and there are tens of thousands of these that are distributed all over the world.

So the problem, I think, that we have to take note of is that this is not simply a problem with the Stinger, or not simply a problem with the Stinger distributed to Jordan, or any sort of hand-held weapon. It is a worldwide problem, and this is the way in which we have attempted to address it.

Second, while I am not knowledgeable, nor would I defend misuse of American military assistance, I am informed that Jordan has a spotless record with respect to maintaining the security of the Redeye missiles, which they already have in their inventory.

We have taken particular note of the concern about terrorism on the question of the Stinger, and we have made new arrangements that will govern worldwide distribution of the Stinger.

In particular, the arrangements that will be made are that the missile will have to be broken into two constituent parts, the missile itself and the firing mechanism. These will have to be separately stored, catalogued by serial number, and be subject to random inspection.

We think that this approach, which is a substantial departure from previous practice, will address the problem of terrorist access. When you combine that with the record that Jordan has, we think that we have minimized the terrorist risk with respect to hand-held air defense weapons.

Senator KASTEN. Nevertheless, if the Stinger will be sufficiently effective to defeat aircraft attacking Jordan and Saudi Arabia, it seems to me that it would also be able to shoot down Israeli aircraft.

Wouldn't the process of putting Stingers in the hands of the Jordanians force Israel to develop countermeasures to the Stinger, in fact forcing Israel to add to its defense budget at a time when within Israel the defense budget is under significant pressure?

Mr. SCHNEIDER. The question of countermeasures on the Stinger is something I would prefer to address on a classified basis, if I could, Mr. Chairman.

PROLIFERATION OF AIR DEFENSE SYSTEMS

Senator KASTEN. I am worried that the Stinger sale may be the first of a whole series of arm sales to Jordan, without any participation by Jordan in the overall peace process that we are working toward, particularly the Camp David process, but I wouldn't want to limit it to that.

During the past couple of years, it has been reported that we plan to sell F–16 fighters, F–20 fighters, mobile improved Hawk surface-to-air missiles, antiaircraft guns. What assurances do we have that the Stinger sale is not the beginning of a whole series of sales, without seeing the Jordanians act on behalf of our interest in that area?

Mr. SCHNEIDER. Mr. Chairman, to the best of my knowledge, no further advanced air defense weapon sales are being considered. So I could not add to that particular assurance, apart from that knowledge.

I think the need for going ahead with the Stinger sale at this point was related to the developments in the region where the Syrian regime appears intent upon turning its malevolent influence on Jordan, and a modicum of upgrading of the ability of Jordan to defend itself against certain kinds of air attacks seems to be a prudent step that would not send us across the rubicon of a major arms supply relationship with Jordan, but nevertheless would serve an American objective of preventing the loss of Jordan to Syrian arms.

Senator KASTEN. It is my understanding that the Jordanian Army right now uses Soviet antiaircraft weapons. Is that correct?

Mr. SCHNEIDER. They have some Soviet antiaircraft weapons.

Senator KASTEN. It is also my understanding that there are Soviet military personnel in Jordan. Is that correct?

Mr. SCHNEIDER. I would have to doublecheck that.

I know Jordanians have been trained on the Soviet-made antiaircraft weapons. I don't know whether all of the training was conducted in Jordan, or if some was conducted in the Soviet Union. But if it is being conducted in Jordan, I would suspect that there would be Soviet personnel to do the training.

[The information follows:]

SOVIET MILITARY PRESENCE IN JORDAN

There is a small Soviet military mission in Jordan associated with the Soviet air defense weapons Jordan has purchased.

SOVIET ACCESS TO STINGER TECHNOLOGY

Senator KASTEN. Despite the cross-checking, serial number system that you were talking about earlier, what assurances do we have that these Soviet personnel will not be able to steal the Stinger technology, if not the missiles themselves?

Obviously, they are not going to walk out with the missiles themselves. But, if you have Soviet military personnel there, it seems to me that we are creating a significant problem for ourselves. What assurances do we have vis-a-vis the Soviet military personnel who are now in Jordan?

Mr. SCHNEIDER. That is a pertinent question, because that is one that we face in a number of countries around the world.

The standard agreements that we have had in the past on advanced military technology have been largely focused on restricting compromise of the technology. We have a standard agreement that requires the recipient to protect the technology from unauthorized access.

It is to these basic understandings that we have with arms recipients that we have added these additional restrictions that relate to the control of access by terrorist individuals or organizations.

So we believe the technology transfer control that we already have on Stinger and other advanced weapon systems are adequate to protect them where we have either sold them or provided for them on a grant basis. It is simply that we have added protections against terrorist access as well.

Senator KASTEN. I don't want to go into the Stinger missile sale program in any more detail, but I am sure that you recognize, as do certain members of the committee when Secretary Shultz spoke, that there is serious concern and objection, under the present circumstances, in going forward with the sale of the sophisticated Stinger missiles to Jordan.

The Congress has that concern, frankly, because of the legislative veto and the constitutional quandary that we find ourselves in; we are not exactly sure how this is going to work itself through. But the Congress will find an opportunity, I believe, to register its disapproval.

I am hopeful that we do not find the administration going forward in spite of, or over the objections of Congress because of the constitutional question. I think that there are a lot of issues that we need to work on together, and this is one that I think there are serious, serious questions and problems in Congress.

JORDAN LOGISTICS PROGRAM

The other part of that proposal was the Jordan logistics program. It is included in the defense budget, and not part of the overall foreign operations budget, nevertheless, I think that it is important that we talk about it for just a minute.

What role will the United States have when the Jordan logistics program force actually goes into action?

Mr. SCHNEIDER. Unfortunately the program, for purposes of this discussion is still on a classified basis. There is relatively little that I can discuss in detail, except to say that the program will be under the complete control of the United States. I would be glad to expand on the answer on a classified basis for the record, Mr. Chairman.

Senator KASTEN. Will American aircraft have to move it from place to place, or would that be classified?

Mr. SCHNEIDER. I will develop it on a classified basis for you, Mr. Chairman.

[CLERK'S NOTE: A classified response has been submitted.]

Senator KASTEN. Aren't there discussions going on right now to see if we can move this from a classified program into an unclassified program whereby we would be able to discuss these things openly?

Mr. SCHNEIDER. Yes, Mr. Chairman. It is my preference that the program be handled as a nonclassified program, and discussions are underway that I hope will lead to that end.

Senator KASTEN. Not only as chairman of this subcommittee, but also as a member of the Defense Appropriations Subcommittee, I would just simply agree with you that I think that the program under certain circumstances could have value. If we work together with the Congress, and with our allies in the Middle East, than we may be able to work something through.

I might say, incidentally, that I think the whole question of Stinger missiles makes the likelihood of the Jordan logistics program more difficult. I think that if we took it out of classified form, and we were able to discuss it openly, whether it is in Defense or Foreign Operations—I guess that is going to be argued on the House side—that we would be better off. I agree with you that it would be better off in an unclassified form.

Mr. SCHNEIDER. I would say, Mr. Chairman, I appreciate the fact that there is a tendency to link these two discussions, but I think the interests of all would be served to the extent that we can treat these as separate issues on the merits, and try not to have the discussion of one contaminate or support, depending on one's perspective, the other.

I can't improve on Secretary Shultz's remarks that he has received the message from the Congress as to their attitude on the Stinger sale.

RETURNING FMS BACK ON-BUDGET

Senator KASTEN. What kind of response are you getting from the Hill to your suggestion that the FMS be put back on the budget?

Mr. SCHNEIDER. Generally a good one. Prior to initiating the proposal, we had informal consultations with members of the Budget, authorizing, and appropriating committees to test their responsiveness to this particular approach, and the responsiveness was quite good. Moreover, the Carlucci Commission, which had as members several members of both the House and Senate who were assigned to committees that have responsibility in this arena, fully supported the recommendation made.

My observation is, in general, that the matter is being well supported, not only on conventional budget grounds, but also on policy grounds because of the flexibility that it permits in the management of the foreign assistance program.

Senator KASTEN. All of us are concerned, of course, that people are going to say that it is another increase in "foreign aid," and in fact what we are doing is simply laying it out in the way I believe it should have been laid out all along. I am hopeful that people will understand that.

REPROGRAMMING FOR GRENADA

Over the weekend there were press and media reports indicating that the administration decided to support the completion of the airport in Grenada for roughly $19 million.

How will that request come before Congress? We read about it before we had any specific request, frankly.

Mr. SCHNEIDER. I believe that it will be a reprogramming request.

Senator KASTEN. Why don't you just speak.

Mr. SCHNEIDER. Bob Bauerlein.

Mr. BAUERLEIN. The request should be coming up to the Hill very shortly. It will be, as I understand it now, in the form of a reprogramming. Prior to it coming up, we intend to have people come up and consult with the committees before it officially arrives here.

Senator KASTEN. What is the timetable for that? It was announced over the weekend, but when do you think you are going to be coming up with some kind of a formal request?

Mr. BAUERLEIN. If not by the end of this week, early next week.

Senator KASTEN. You are taking it from where? You are reprogramming it from where to Grenada?

Mr. SCHNEIDER. This is the point that we want to consult about, Mr. Chairman. We have some accounts with funds that have not yet been expended. As we have some alternatives, we would like to discuss that.

Senator KASTEN. Does the airport come under ESF or does it come under FMS?

Mr. SCHNEIDER. ESF.

Senator KASTEN. Is there a possibility of taking the money out of Lebanon?

Mr. SCHNEIDER. That is one possibility, yes.

Senator KASTEN. That is one possibility?

Mr. SCHNEIDER. Yes.

Senator KASTEN. I am supportive, and I think the committee is supportive. At different times, members of the committee have been to Grenada, and we have had an opportunity to review the situation there, and we recognized the importance of completing the airport for commercial uses, not military uses.

We are supportive, I think, in general, but we want to work with you in terms of where the dollars are coming from.

Mr. SCHNEIDER. Exactly.

Senator KASTEN. I am not trying to express any opposition at all toward trying to help the Grenadans.

Mr. SCHNEIDER. That is our intention, Mr. Chairman. We are intent on getting this project finished so that the Grenadian economy can have the benefits of it for the next tourist season.

U.S. RELATIONSHIP WITH MOROCCO

Senator KASTEN. I wonder, Mr. Secretary, if you could characterize our relationship with Morocco, especially that country's willingness to help us on important Middle East matters. I think the king has played a critical role in terms of the relationship with Egypt and the rest of the Arab world, but also in overall North African matters.

Mr. SCHNEIDER. Morocco has been especially helpful to the United States, not only in cooperation with us in military matters, as you said, but a force for moderation in the entire range of disputes that engulf North Africa and the Middle East.

It has been an important force in mediating North African disputes. It has contributed to reintegration of Egypt into the group of Middle Eastern nations that we think will, by reducing Egypt's isolation, make it possible for Egypt to contribute more in the future to the peace process in the region.

Perhaps General Gast can add something to this, but we think that the relationship that we have with Morocco, with our foreign assistance program, has been a mutually reinforcing and mutually beneficial relationship, and we hope that it will continue.

FULL SECURITY ASSISTANCE REQUEST TO MOROCCO

Senator KASTEN. Before I ask General Gast to comment, and obviously I would like to ask General Gast to comment, but this next question obviously follows. How important is it that Morocco receive its full security assistance request?

Mr. SCHNEIDER. We are moving to provide funding at the request level in fiscal year 1984. We recently had conversations with Moroccan officials, including the Prime Minister who visited here. We will have a request in the aggregate that is at the fiscal year 1984 request level.

The question is one of the mix. In the time period that has elapsed between when we originally put the fiscal year 1984 program together, which was in late 1982 and early 1983, the economic and security circumstances of Morocco have evolved over time, and we may well make some changes in the mix. But in terms of the resources, that will be at the request level.

Senator KASTEN. General, do you wish to make any special comments about Morocco?

General GAST. I would, sir. Of course, we in Defense place our relationship very highly, as you know, and there is some military construction ongoing there as well, and there are some other programs that we think are very, very important.

It seems to us, and we have reached general agreement with the Moroccan Armed Forces to be sure that the funds that we do offer are used in the most efficient and effective way. We have been able, within the Defense Department, to work within our overall accounts to assist them a great deal in getting those efficiencies.

We have come, with some agreements on their part, to better understand their requirements, so that we can perhaps articulate them better to the Congress in the future, as well as when the allocation time comes after the moneys are made available.

Senator KASTEN. I would just like to say that the committee feels strongly that because of the support that this country has given us, and also its geographic location, that this is not one of the countries that ought to be shorted. I think that it is important that both of you understand that.

PHILIPPINE PROGRAM

Secretary Schneider, I understand that while the House Foreign Affairs Committee has recommended approval of the entire dollar amount for the Philippine program, they have recommended that more of it be in economic assistance, and less in military assistance.

I am just trying to get your reaction to that. Obviously, your position in terms of the balance is somewhat different. Could you live with the split recommended by the House Foreign Affairs Committee?

Mr. SCHNEIDER. We think that this was an unwise recommendation, the reason being that the security assistance relationship we have with the Philippines is different than that with other countries. In particular, the assistance relationship that we have grows out of the negotiations over base rights and base access in the Philippines.

The amounts that we had proposed to the Congress, and the mix of programs had been ones that had been discussed with the Philippines, and represented a best efforts commitment on the part of the United States.

We think, in view of the very forthcoming manner in which the Philippine Government has offered access to these facilities, that it would be inappropriate to make changes in the mix which was mutually agreed upon to be in the best interest of the economic development, as well as the security of the country involved.

MILITARY SITUATION IN EL SALVADOR

Senator KASTEN. We continue to hear speculation about the possible use of special authority in the Foreign Assistance Act to provide military assistance to El Salvador. There are a couple of options: use the draw down accounts or adding on to the requested supplemental.

I did some checking, and I think that it is interesting to note that Congress, in fact, has not voted, either in the House or the Senate, on military assistance to Central America, or military assistance to El Salvador since the fall of 1981. We did have one vote in the Appropriations Committee in 1983. The question, in other words, has not reached the floor of either the House or the Senate as a direct up or down vote in years.

What is the current situation, No. 1, in terms of the military situation in El Salvador and, No. 2, what kind of special authority will you be using in the next week or two?

Mr. SCHNEIDER. I think that it is pertinent to review how we got to where we are.

You will recall, in the fall of 1983, the Congress approved a continuing resolution for the foreign assistance program, including $64.5 million for El Salvador.

This figure was based upon the expectation that in January, the Kissinger Commission would make its report and recommendations for supplemental assistance for fiscal year 1984 for Central America that would be part of a multiyear program. This was expected to be followed by an administration request for a supplemental and expeditious congressional action on it.

All of those things have come to pass except for the prospect for expeditious action on the supplemental request. The latest information we have is that consideration of the supplemental may be delayed until June or July, or sometime very far in the future, in a way that does not square with the funding level that had been proposed.

You may recall that the fiscal year 1984 funding level was well below what had been spent in fiscal year 1983. So at some point, the troops in El Salvador are simply not going to be able to continue fighting, and the risk, of course, is that they are going to finally run out of stock of equipment, and will simply stop short long before they ever arrive at the circumstance where they are obliged to expend their last bullet.

We have been looking at alternative ways in which this situation can be addressed, and you have taken note of the alternative ways of doing this. The matter is before the Secretary, and at this point no decision has been made as to what to do, but I believe that the situation will have to be addressed in the very near future.

MILITARY EDUCATION

Senator KASTEN. General Gast, this might be a question for you. I had breakfast with the Joint Chiefs a week or so ago, and among other topics discussed was the question of military education. They pointed out that there are different costs depending upon which country you come from—NATO, non-NATO, or IMET qualified. I frankly don't remember the whole chart.

I do not know if you are an education expert, and nobody told you that we were going to ask you this question. But it seems to me that we could help ourselves if we had greater education exchange programs within our regular university system, and also within our military university and school system.

It seems to me that the costs associated with at least some of these areas of the world are prohibitive, and also those countries might even feel that somehow we are discriminating against them and favoring some other countries.

In fact, it might be the very countries that would need our kind of military education, with a balance in terms of rights of individuals, et cetera, that are now being excluded because of financial reasons.

In your opinion, is this a problem, and would you describe the problem?

General GAST. Certainly.

Senator KASTEN. No. 2, what may we be able to do, either in the authorization or in the appropriation bill?

General GAST. Thank you, Mr. Chairman.

There are major problems in our view, and the Joint Chiefs are very concerned about it, as well as the Secretary of Defense, who has taken note of it in his appearances and has asked for a resolution.

We have two or three things that we are asking this year. One is a rather simple thing which would allow us to have a foreign student come to one of our professional schools without charge, with the agreement that they would accept one of ours at their institutions.

Senator KASTEN. This would be an exchange program.

General GAST. An exchange, without money having to be passed.

Many countries don't like to do that because they have to pay here, and they don't like to charge us when we go. There are many of them that give us a problem with that. We had a very favorable markup last year on both of those in the committees.

The one that we have not enjoyed similar sympathy, though, had to do with what you are speaking about, where we now have four different tiers of costing for the same courses, depending on what the country qualifies for. We have generally an IMET cost where they use the IMET money, and it is very low. Let's say that it is $100. Nothing comes for $100, so I should use $1,000 perhaps.

Then you have another case where the country may be eligible for IMET, but they can buy IMET and FMS, or buy FMS if they don't have the IMET money, and that might be $1,600. Then you have the NATO countries that qualify for NATO pricing, and that might be $2,500. Then you have all others that don't fit into either IMET, FMS–IMET, or NATO pricing, and it might cost them $4,000 for the same course.

Senator KASTEN. For the same course?

General GAST. For the same course.

Senator KASTEN. So you have some people in at $4,000, some people at under $1,000.

General GAST. That is right, depending on what category they fall in.

The issue really is what some people refer to as full cost recovery versus what is out-of-pocket expense for our services. We maintain that we should have a single price above IMET, and it should be essentially the IMET–FMS rate, that is whatever it costs us to train the individual over and above what we would otherwise expend.

Today, for many countries, for example, this glass would be added to the cost because the base bought it and had to maintain it or the chapel services, or mowing the grass, et cetera—it is that ridiculous.

There is data that suggests that as a result of these high costs, the number of people training in the United States from all countries that are not IMET qualified is dropping off. Even within NATO the number of students that come over to train is less. Training benefits many countries. We believe that it is vastly important. If IMET is important to us, then FMS training should be important to us.

Senator KASTEN. It is my understanding that at least parts of this problem over the last couple of years have been worked out in the authorizing committees, both in the House and in the Senate, but, of course, the authorizing bills never passed.

General GAST. That is right.

Senator KASTEN. This is not a contentious problem, necessarily, it is just that the train you were on never left the station.

General GAST. That is true.

Senator KASTEN. Maybe we can put part of this on our train, and we can try to work with you and help you in terms of solving some of these kinds of problems. We will try to work with you in terms of solving some of these kinds of questions and problems.

FLOW OF MILITARY ASSISTANCE

Mr. Schneider, I have one more question about Central America. The Salvadoran Army has been accused of demonstrating a kind of a barracks mentality. The critics claim that it really has no stomach for combat or for pursuit. How much of that can be attributed to inconsistency in terms of the American military assistance and the questions that we were talking about before, not knowing on which day you might be running out of bullets?

The Joint Chiefs said that the Congress has appropriated only a quarter of the aid El Salvador needs to defend itself. The precedent that I worry about frankly is Vietnam. In 1975, following the cutoff of American military aid to that country, the South Vietnamese in the central highlands were given only 25 rounds of small arms ammunition and one hand grenade per day. Aren't we contributing in a way to the same kind of mentality in El Salvador by our inconsistent support?

Mr. SCHNEIDER. Certainly part of the problem is the uncertainties in the flow of supplies which contributes to a reluctance to engage in behavior that would draw down to the last bullet. There have been other problems.

I can cite, for example, lack of medical evacuation facilities. There is a high probability, if one is wounded, that one is also eventually dead as a consequence of the wounds because of the inability to evacuate individuals who are wounded.

There have also been some leadership problems which the Salvadoran Forces are now coming to grips with by putting higher performance commanders in at the battalion level, and their appointment is a consequence of the technical competence rather than sheer weight of seniority.

I think there isn't any one cause for the problems that you cite, but there are several causes. I think the fact that Salvadoran forces are taking 12 to 15 percent casualties suggests that the image of a barracks-bound military force is not justified. They are brave individuals, and they are suffering because of it.

PROGRESS IN CONTROLLING DEATH SQUADS

Senator KASTEN. What kind of progress is the administration making in its efforts that this committee has heard about, actions taken by the Secretary of State, Vice President Bush, et cetera, and this committee also put language in our bill in terms of the human rights question. What kind of progress is the administration making in its efforts to get the death squads in El Salvador under control?

Mr. SCHNEIDER. I think that we have the attention of the Salvadoran Government on this problem, and they have been taking steps to identify individuals associated with this sort of behavior, and in some cases bring them to trial as is being done now in the case of the churchwomen, and in other cases, at a minimum, get them out of the circumstances where they can continue their activities. I think this is a slow process, and one that I hope we will have a higher rate of progress in the future, but one, I think, that is in the process of being attended to.

Senator KASTEN. Senator Leahy.

PROGRESS IN THE CHURCHWOMEN'S CASE

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Schneider, I remember last year you and I had a long exchange, and we talked about the murder of the four American churchwomen in El Salvador.

For the last 3 years, if my memory serves me right, the subcommittee has been told that the case was progressing. I am not sure, but I assume they were using the English meaning of "progressing," but nothing has happened. Last year you told me that "the case had been put on the front-burner by the Salvadoran Government, and they are inching slowly toward seeing that justice is done in these cases." It is my memory that I asked how many inches a day it inched from where they are inching from. If they are inching from the end of South America to Central America, it might be one thing.

I made a comment in another hearing when we were talking about whether the Senate would confirm a particular presidential appointee for a particular post. I said that the Senate as presently constituted would confirm Jack the Ripper for Surgeon General if the President asked them to, because we were sort of "going along." But I hope that this is not a case where the administration feels they can come in and ask for any amount of increase in foreign aid of whatever sort, and the Senate is automatically going to roll over and give it to them, because we are a year later from that time. I have heard Republicans and Democrats say every year, "they will change their attitude if we give more foreign aid," but, of course, nothing is done, and every year they get more money.

One of two things is happening. Either the U.S. Government has been lied to by the Salvadorans, or the U.S. Government is lying to this committee, which is it?

Mr. SCHNEIDER. I think there is a dimension of this that perhaps you may not be aware of. The recent judicial activities in El Salvador that bear on this case. My understanding is that all of the obstacles have now been cleared for a disposition of this case.

Senator LEAHY. Mr. Schneider, every year, you go to the newsclippings and the testimony, at just about appropriations time, that the obstacles have been taken care of in El Salvador. I look at the case that we presented to them. We had the FBI put together information for them. I spent nearly 9 years as a prosecutor, and the greenest assistant could have gotten a conviction easily, even under the restrictions that the Salvadoran judicial system puts on things.

We are told each year that there is progress. Last year a new judge had been appointed, of course, as soon as the foreign aid bill was due, and it may have been totally coincidental on the timing, but then he was off the case, or he retired, or became ill, or somehow got on to something else. This year, we have a judge who has reviewed it, we have had others review it, and we are ready to go again. Is it going to be the same thing all over again?

Mr. SCHNEIDER. That is not my understanding, Senator. I was told the following:

First, a judge raised the case to the final stage of judicial proceedings on October 28. Defense attorneys appealed the decision. On February 10, the Appeals Court ruled that the judge was correct in his decision to raise the case to what is called "plenario." The plenario normally takes 2½ to 3 months, and we should have a verdict by early summer.

Senator Specter, who has taken a particular interest in this case, to paraphrase some of his observations at Secretary Shultz's hearing before this subcommittee last week, indicated that he was of the opinion that the case appeared to be on track. I think I would share that characterization.

Senator LEAHY. So the trial will be held when?

Mr. SCHNEIDER. I believe that it is in May, and the verdict by early summer.

Senator LEAHY. So we will have a trial in May, which is just about the time that the appropriation bills will be coming through committee conference. So I can assure the conferees at that time that we will be having a trial in May.

Mr. SCHNEIDER. That would be my expectation. I can appreciate the——

Senator LEAHY. The fact that the defense attorney just resigned won't affect that in any way?

Mr. SCHNEIDER. I couldn't tell you from my own knowledge, Senator. I am not a lawyer, and I have to rely on others.

Senator LEAHY. What do the State Department lawyers say? What do your experts down there say?

How many people here are from the State Department, would you raise your hand?

[A show of hands]

Senator LEAHY. How many are involved in legal matters?

Mr. SCHNEIDER. These are budget experts.

You deserve a more comprehensive answer on that particular point, Senator, and I will have it provided to you.

[The information follows:]

THE CHURCHWOMEN'S CASE

A new defense attorney was named before the resignation of the previous defense attorney was formally accepted by the judge. Consequently, the resignation was not a cause of delay. *Plenario*, the final stage of the judicial proceedings, has begun, and the first portion of *plenario* has been completed. The period for requesting a change of venue or entering new evidence ended with the completion of the first phase of *plenario*. Now only an illness of one of the key participants or difficulties in empaneling the jury can cause delays.

SALVADORAN HANDLING OF CASE

Senator LEAHY. Has the Salvadoran Government lied to us regarding this case?

Mr. SCHNEIDER. No. I think the legal process in El Salvador has an extraordinarily baroque set of procedures for delays. This case has been working through there, and it appears to be relatively easy to invoke delays. The argument that was made to me by lawyers who have been following this case is that the decision on moving the case to a plenario, and that being upheld by the Appeals Court, is the show stopper as far as further dilatory tactics are concerned.

Senator LEAHY. Mr. Schneider, let me ask you this. Here we have a case, front page news all over the world. The U.S. Government has spent an absolutely enormous amount of money and an enormous amount of time to try to provide information to the Salvadoran Government in order to prosecute.

We talk about it a lot. The President mentions it. The Secretary of State mentions it. You mention it. The Vice President mentions it. The series of ambassadors that we have had, which is three ambassadors since the four were killed, they have all mentioned it. So it is a matter that has been given great notoriety, and still people have not been brought to trial.

Does that suggest to the average person that the people who were involved in the murder of 30,000 Salvadorans, those cases that never get to the front page of the newspapers, that are never talked about by the President, the Vice President, the Secretary of State, the three ambassadors, and so on—we have to assume that not a heck of a lot is going to be done in those cases?

Senator KASTEN. I am going to ask you to close this hearing. I am going to try to sneak over and ask a couple of questions of the Secretary of Navy. You can Chair the remainder of this hearing. I have had an opportunity to ask my questions.

Let me just thank you, Mr. Schneider, for your work this morning. We look forward to working with you.

Mr. SCHNEIDER. Thank you, Mr. Chairman.

REFORM OF THE JUDICIAL SYSTEM

Senator KASTEN. Senator Leahy will now ask his questions.

Senator LEAHY. Thank you.

Mr. SCHNEIDER. One of the points in which we are most interested is reform of this society in the judicial system. Clearly this case indicates that the judicial system is in need of reform. It should not take this long to bring people to justice. We know that there are problems of intimidation of witnesses, judges, prosecutors, and so forth.

Senator LEAHY. Intimidation by whom, Mr. Schneider?

Mr. SCHNEIDER. Left and right.

Senator LEAHY. In this case, who is being intimidated?

Mr. SCHNEIDER. In this particular case, I don't know if intimidation was in fact brought to bear.

Senator LEAHY. Are you saying that there was no intimidation brought to bear in this case?

Mr. SCHNEIDER. No; I don't know. There could well have been. I just don't know whether it was or not in this case. But I am advised by the people who have observed the judicial system in El Salvador that intimidation is in general a problem, and we need to find ways to improve that.

Senator LEAHY. Do people in the State Department know if there was intimidation brought in this case?

Mr. SCHNEIDER. I don't know from my own knowledge. Whether they know it from their own background, or have learned it from others on the scene, I am sure that we can find an adequate characterization of this for you.

[CLERK'S NOTE: A classified response has been submitted.]

Senator LEAHY. Would it surprise you that the characterization given by some within the U.S. Government is that there has been intimidation, and that there has been intimidation brought by people within the current government? Would that surprise you?

Mr. SCHNEIDER. No.

Senator LEAHY. The New York Times reported Saturday that a high ranking retired military officer from El Salvador said Col. Oscar

Casanova ordered the four nuns to be eliminated. Who is Oscar Casanova?

Mr. SCHNEIDER. The chief of staff of the armed forces. Is it Vides Casanova?

Senator LEAHY. No; Oscar Casanova.

Mr. SCHNEIDER. I don't know that one.

Senator LEAHY. I am told that he is a cousin of Gen. Vides Casanova who is now the Minister of Defense, and who was head of the national guard at the time of the killings.

Mr. SCHNEIDER. I don't know the individual, but it sounds plausible.

Senator LEAHY. Judge Tyler said in his report that there was a coverup in the case. The Times goes on to say that Oscar Casanova's involvement in the killing was known to several people at high levels of the Salvadoran Government. Have you read that article in the Times of Saturday?

Mr. SCHNEIDER. I saw the article, but I am not acquainted with the details of the case.

Senator LEAHY. Is there someone within the State Department who is?

Mr. SCHNEIDER. I am sure Assistant Secretary Motley, who has been following this, would be acquainted with these details.

Senator LEAHY. Is there anybody here who is?

Mr. SCHNEIDER. I don't believe so. The people who are here are mainly involved with the budget.

Senator LEAHY. Obviously, after a story like this there are going to be a number of committees here on the Hill that are going to want to know what did our Government know about it, and when did we know it. I think that that is a valid assumption both on this side of the Hill and the other side of the Hill. As a matter of fact, I serve on a couple of the committees that will be looking into it. I expect that the Intelligence Committee will look into it, and eventually, the truth will come out.

Suppose it turns out that the Times is right, Oscar Casanova's involvement in the killings was known to several people at high levels in the Salvadoran Government, would that suggest to you that the Salvadoran Government has been lying to us as we have gone along?

Mr. SCHNEIDER. It is a hypothetical question, and I really would not want to try and answer that one.

Senator LEAHY. How many men are in the Salvadoran security force?

Mr. SCHNEIDER. I believe on the order of 25,000, but I would have to get you the exact figure.

General GAST. That is on the military side. On the security side, I think there are 3,000 or 4,000.

Senator LEAHY. How many combatants in the guerrilla forces?

Mr. SCHNEIDER. Nine thousand.

General GAST. It is about 9,000 to 10,000.

Senator LEAHY. Nine to ten thousand?

General GAST. Yes, sir, I believe so. I don't have those precise numbers. These are all estimates, to my recollection.

Senator LEAHY. I was given another figure in another committee of 6,000.

General GAST. I am sorry, I just don't have the data to respond effectively to your question.

Senator LEAHY. Could we get that for the record, please?

General GAST. Yes, we can.

[The information follows:]

Current estimates range from 9,000 to 12,000 in the guerrilla forces.

Senator LEAHY. What percentage of the Salvadoran Army is assigned to combat?

General GAST. I will have to provide that. I didn't come prepared to answer those kinds of questions.

[The information follows:]

For the past 4 months the Salvadoran army has maintained approximately 70 percent of its forces in the field on combat operations.

Senator LEAHY. How many of the troops trained by the United States in 1981 remain on active duty?

General GAST. We would also provide that for the record.

[The information follows:]

Less than 15 percent remain on active duty because they serve for 2 years only.

Mr. SCHNEIDER. There is 12 percent casualty, sir. They have suffered some substantial losses by this time. Maybe there is over one-third of them that would be dead.

Senator LEAHY. How many of those remain who were trained by the U.S. in 1982?

Mr. SCHNEIDER. We will have to investigate it.

[The information follows:]

NUMBER OF U.S.-TRAINED SALVADORAN SOLDIERS ON THE JOB

During 1982, the United States trained 3,300 Salvadoran troops in four separate groups in the United States. As of July 1983, over two-thirds of these troops were still on active duty. We do not have more recent figures for the 1982 group. Other Salvadorans received some training within El Salvador or received brief refresher courses or specialized training elsewhere. I do not have retention figures for these people. In general, however, reenlistment rates are high within U.S.-trained units. In part, this reflects a reenlistment bonus established by the Salvadorans last year.

DRAFT AGE

Senator LEAHY. What is the draft age?

Mr. SCHNEIDER. I don't have those details. We will have to submit that for the record.

[The information follows:]

DRAFT AGE IN EL SALVADOR

Under article 213 of the new constitution, military service is obligatory for all Salvadorans between 18 and 30 years of age. The constitution states that "special legislation" will govern the enactment of this article. Pending the enactment of the new law on conscription, the military has provided temporary guidelines exempting only-sons and students. While it is not yet known what form the conscription law will take, the Salvadoran Government's interest is to strengthen the law in such a manner as to ensure that conscription fairly impacts on all groups.

Senator LEAHY. There have been cases where young men have been kidnapped to serve in the army?

Mr. SCHNEIDER. It is not known to me, but we can look into it.

[The information follows:]

KIDNAPPING OF YOUNG MEN FOR MILITARY SERVICE

In the absence of a law governing this matter, conscription by the army is decentralized and procedures for control are loose. The lack of enforcement measures has led, in some cases, to reports of de facto press-ganging. The military high command has expressed concern over these procedures. We are hopeful that a conscription law will be passed in the near future and that the opportunity for abuse by over-enthusiastic local commanders will be minimized. In the meantime, reports of guerrilla press-ganging are up.

General GAST. I am not aware of that.

Senator LEAHY. The newspapers keep reporting that. Is there any basis for their stories?

Mr. SCHNEIDER. I have not seen any of this reporting in Government publications, apart from what we have read in the press, so I cannot attest to the accuracy.

Senator LEAHY. You wouldn't have too many articles going out on this.

Mr. SCHNEIDER. I am talking about the classified reporting that the Government provides.

Senator LEAHY. I was noticing that there is one by Stephen Kinzer in the New York Times of January 30, with a dateline of January 28, headlined "El Salvador Presses Hundreds into Military."

It starts off by saying:

> Hundreds of young people have been pressed into the Salvadoran Army this month after being stopped by military patrols in the northeastern part of the country. Five Roman Catholic seminarians were taken into military service, four while walking in San Francisco, and a fifth after his car was stopped by a road block outside of town. Only after the Archbishop of San Miguel interceded on their behalf were they turned loose.
>
> Salvadoran law subjects all young men to the draft, although diplomats said that in practice a certain small elite are rarely inducted against their will. In recent years, the army has on various occasions drafted passengers and pedestrians stopped at road blocks.

Have you heard anything about that before?

Mr. SCHNEIDER. No; apart from the press reports.

Senator LEAHY. How long have we been training the military leadership of El Salvador?

Mr. SCHNEIDER. I am sure that there are antecedents to the present program where we have trained Salvadoran officers going back into the 1950's and 1960's.

General GAST. I would presume so.

Senator LEAHY. Did United States train Roberto D'Aubuisson?

General GAST. I don't know, sir, but we can find that out for you.

Senator LEAHY. Can you find out, if we did, where and when?

General GAST. Yes; D'Aubuisson attended two U.S. training courses—the first was at the Inter-American Police Academy in 1966 in Washington~~,~~ D.C. The second was a communications course at the U.S. Army School of the Americas in Panama in 1972.

Senator LEAHY. Did the United States train Oscar Casanova?

Mr. SCHNEIDER. We don't know that one either, but we will find out.

[The information follows:]

U.S. TRAINING OF OSCAR CASANOVA

To the best of our knowledge, we did not. Our records on who we have trained are not extensive, and there is the possibility that sometime in the past we trained him or he took a course here or in Panama. We have not found anything, however, to indicate that this is the case.

Senator LEAHY. What about General Garcia?

Mr. SCHNEIDER. I am not tuned up on these, I will have to get the answer for you.

[The information follows:]

U.S. TRAINING OF GENERAL GARCIA

Former Minister of Defense Garcia attended a counterinsurgency course at USARSA in Panama during 1966.

Senator LEAHY. Do we have military advisors and intelligence units in the Salvadoran security forces?

Mr. SCHNEIDER. I don't believe so. I think our only military presence, apart from the trainers, are those who are at the embassy, but I will check that one for you.

[The information follows:]

U.S. ADVISORS WITH SALVADORAN SECURITY FORCES

We have military trainers in El Salvador, but none are attached to or work with the security forces.

TRAINING OF EL SALVADORAN ARMED FORCES

Senator LEAHY. Last year, when I raised a number of questions about what was happening down there with the problem of running out of ammunition, troops needing more training, the human rights, and so on, you said that "the problem is one of simply giving the Salvadoran Armed Forces adequate training so that they can do a good job, and equipping them so that they can perform." Have we been training them?

Mr. SCHNEIDER. Not as much as we would like because the continuing resolution in fiscal year 1984 made an approximately 25-percent cut from the level that we were operating in fiscal year 1983, and that fiscal year 1983 level was well below that which we had requested. So while we are doing training, and that is the largest share of our investment, it is still well below what we would like to see.

Senator LEAHY. Were those cuts somewhat along the line of what the President of the United States and Vice President of the United States were telling the Salvadorans they were going to be facing if they didn't clean up their act?

Mr. SCHNEIDER. I am not familiar with the particular levels that they had in mind, but certainly we have made it clear to the Salvadorans of the congressional concerns.

PRESSURE TO RESPECT HUMAN RIGHTS

Senator LEAHY. Have we told them pretty explicitly by the three ambassadors who have served in the last 3½ years of President Reagan's administration, by the two Secretaries of State, by the Vice President, by the two different Assistant Secretaries of State for that part of the world? Have we told them that if things are not improved, they are going to face cut-offs and cut-backs?

Mr. SCHNEIDER. I think the remarks that Secretary Shultz made to this subcommittee last week indicated that ultimately, if they do not take steps, as you put it, clean up their act, that we are prepared to cut them off.

Senator LEAHY. Do you think that they might take us a little bit seriously if they actually see some of this money being cut off?

Mr. SCHNEIDER. I don't know precisely what would be the best motivator. I think that it is clear that we have important objectives in that region. I think that the approach that we have been taking of simultaneously putting pressure on them to make changes, at the same time we are trying to push them into better military performance, has been reasonably effective.

If you take note of the fact that they were quite surprised that after the certification legislation was vetoed last year, they thought that perhaps they might be off the hook because the Congress no longer had the leverage it had had with the certification language.

Senator LEAHY. I don't know why they would ever get that idea.

Mr. SCHNEIDER. They were surprised when the pressure was not abated.

Senator LEAHY. Where did the pressure come from, Mr. Schneider?

Mr. SCHNEIDER. The administration.

Senator LEAHY. In what way?

Mr. SCHNEIDER. Demands by the Secretary of State and the Vice President that they, in fact, clean up their act, and that it was not solely an interest of the Congress, but an expression of the values of the American people.

Senator LEAHY. Speeches and demands are sort of like King Kanut demanding that the sea roll in one direction and in the other.

I have certain people come to every public meeting that I have in Vermont and demand that I get a law passed to do everything from impeaching half of the Congress, to getting us out of the United Nations, or joining the One World Federation, and it goes across the spectrum. They demand it, but they never expect that it is going to happen, and it doesn't bother me that they come up and demand that. Isn't it the same thing, we can demand, but if the money is not going to be cut off, do they particularly care?

Mr. SCHNEIDER. We have seen evidence that they are making the effort on trying to control the death squad activity.

CONVICTIONS OF DEATH SQUAD PARTICIPANTS

Senator LEAHY. How many people have been convicted of activity in the death squads? How many last year?

Mr. SCHNEIDER. I think conviction in the short term is probably not the most effective way to measure it.

Senator LEAHY. Never mind the 1 year, how about in the last 2 years—how about in the last 10? How about in the last 500 years? How many? Give me a number.

Mr. SCHNEIDER. I don't think that is the relevant way to measure it.

Senator LEAHY. All let's take since World War II, how many?

Mr. SCHNEIDER. I couldn't give you a figure on that, Senator. The important thing is that we want to get this death squad activity stopped. Second, we want to get the judicial system reformed so that those who are guilty of this sort of behavior can be brought to justice.

There is evidence that the Salvadoran Government is attempting to try to bring the death squad activity to a halt and, if not a halt, at least having an impact on it so that it is not as extensive as it had been in the past. At least that suggests a level of determination that perhaps has not been evident before.

Senator LEAHY. Mr. Schneider, when I was a district attorney, probably one of my more popular speeches was to come out and take a stand four-square against crime, especially to Rotary Clubs, Chambers of Commerce, and what-not, and it was pretty well assumed that I had the majority opinion behind me in being opposed to crime.

If we were having a rash of armed robberies, for example, in the area, then I was against armed robberies, and that I certainly hoped that the audience would join me in being against it. I was usually not surprised to find that the audience was against armed robberies, especially if there were any recent victims of armed robbery in the audience.

Now, that was nice, and the newspaper was coming out against it, and everybody would be against it. But the armed robbers would keep on until we caught them and put them in jail. I found that the best thing that I could do as a prosecutor was not just to talk about armed robberies, but to make sure that the investigators in my office, and in some instances myself, were out there arresting the people, as we did. We brought them to trial, and we convicted every one of them, and that stopped the armed robberies.

We talked about death squads, and I am not suggesting that you or the President or anybody else is in favor of death squads. I can't believe that there would be anybody in our Government who would be in favor of death squads. But there is obviously somebody down there who is in favor of death squads, and they are obviously getting support within some elements of the Government.

They are obviously being shielded by some of the same people we are supporting down there, either that or the reporting that our best people down there are doing is way off base. They are being supported, and they are being protected by some of the same people that we are backing and supporting.

Now, we can talk about being against death squads, and you and I can give great speeches in that regard which would say exactly the same thing. I am sure that your speeches and mine would be verbatim about how reprehensible we find death squads. But they will keep right on going unless something is done to stop them.

I have been here 9 years, I am in my 10th year in the Senate. I would like to know, and I will ask the question this way, in the last 10 years, how many people have been convicted of death squad activity? You can supply that for the record, if you would like, but the figure must be available.

Mr. SCHNEIDER. I will try and supply an answer for the record for you on that.

[The information follows:]

HOW MANY PEOPLE KILLED BY DEATH SQUADS?

Frankly, I know of no convictions for politically inspired murder by clandestine organizations of the extreme right or left. There have been convictions, however, of military personnel involved in abuse or murder of civilians. Military personnel are also under detention and judicial proceedings are underway in the cases of the murders of the U.S. churchwomen, the AIFLD advisers, and Michael Kline. I am honestly not confident that any of these cases involve the work of organized "death squads," but I offer them to you as examples of action being taken as a result of suspected abuse by security force members.

I do not believe, however, that our focus on death squads need go back 10 years. We all know that death squads are an abomination, that they have roots antedating the October 1979 coup d'etat, and that as recently as September of last year they were actively killing well-known persons within San Salvador. We also know that something had to be done to put these terrorists out of business. The recent record has been encouraging.

—In December of last year, three officers with alleged ties to the death squads were ordered transferred to posts out in the country. A fourth has been relieved and his salary was suspended.

—On December 2, the National Police announced the arrest of three members of the Constitutent Assembly's security force on charges of kidnapping. The arrests were made within 48 hours of the crime, and the suspects have since been consigned to the courts. The chief of that force left his position.

—A key witness in the AIFLD case, Captain Avila, was arrested for interrogation.

—On December 18, the Minister of Defense announced that a specialized investigative unit would be organized to investigate and combat the death squads. The unit is in the process of becoming operational.

—Most importantly, since December, not a single prominent individual has been the target of a right-wing death squad attack. However, three legislators and two retired military officers have been assassinated by left-wing terrorists.

Steps are being taken and are taking effect. I think that all of this must be considered in the contest of what the Salvadoran Government is: a small reformist movement that in relatively short order is becoming a broadly based and institutionalized democracy. It is only now developing the strength to adequately address the problems of terror and disarray that confront it. Rather than look at the last 10 years, we should focus on what can be done to assure that terrorists are convicted, by process of law, throughout the next 10 years and beyond.

DEATH SQUAD ACTIVITY

Senator LEAHY. It doesn't take up a lot of room, let me tell you right now, because I have already asked the question before.

Mr. SCHNEIDER. I think a point that is easily overlooked in the appropriate indignation about death squad activity is to look at the environment down there. You have 9,000 guerrillas armed by the Soviet Union, with a command and control system run by the East Germans, running around a country roughly the size of Vermont.

Senator LEAHY. Smaller. It is even smaller than Massachusetts. It is even smaller than New Hampshire. I just want to make sure that I understand this. The Soviet Union is directly arming these guerrillas, I want to make sure because this is somewhat different from what we have been told in the Intelligence Committee, and I want to be sure that we are getting these facts correctly.

Mr. SCHNEIDER. The arms are being delivered by a variety of Soviet bloc countries, but the arms are mainly produced in the Soviet Union.

Senator LEAHY. So they do not have a lot of arms produced right here in the United States?

Mr. SCHNEIDER. Some they get are captured from other posts that they have overrun——

Senator LEAHY. What percentage of their small arms have they captured from the Salvadorans?

Mr. SCHNEIDER. If we take all of the years of the insurgency, my expectation is, and I will have to get the correct figure for you, that most of the arms that have been delivered to the Salvadoran guerrillas have been of Soviet bloc origin.

[The information follows:]

PERCENTAGE OF GUERRILLAS' ARMS CAPTURED FROM ARMED FORCES

I do not have an unclassified estimate available, but we will be providing a classified briefing to the Congress shortly.

In general, I can state that the guerrillas have not received the majority of their armaments from the armed forces. I can give you one illustrative example. Since fiscal year 1981, we have shipped 32,925 M-16 rifles to the Salvadorans. Roughly 6½ percent of these rifles have been lost, damaged, or captured by guerrillas.

Mr. SCHNEIDER. Certainly, the explosives that they are using to destroy the bridges, the power system, the transportation system, the water supply system, the electricity is all of Soviet block origin. So while—as every guerrilla group does—they take arms from their adversary, the major source of arms over the course of the insurgency has been of Soviet bloc origin.

Senator LEAHY. If whatever they are getting from the Soviet bloc were to stop, say, today, would the guerrilla insurgency then stop?

Mr. SCHNEIDER. Not for a while because they have stocks that they have maintained to do the kind of damage that they intend, mainly to destroy the infrastructure, and generally avoid engagements with the Salvadoran Armed Forces. Therefore, they don't need high tonnages of ammunitions.

DAMAGE TO EL SALVADOR

Senator LEAHY. Mr. Schneider, you referred to this as a small country, which it is. In the New England context, it is smaller than Massachusetts, which itself is smaller than New Hampshire, which is smaller than Vermont. These are three pretty small States, and this is even smaller geographically.

Let me ask what do you think does more damage to the country, in the sense of a country, the blowing up of bridges and power lines, or the routine, brutal murder of the people?

Mr. SCHNEIDER. The guerrillas are engaged in large scale murder as well.

Senator LEAHY. I am asking the question from whichever side it comes from, from the left or the right, which do you think does more damage to the country as a whole?

Mr. SCHNEIDER. I think the problem is the syndrome of violence and counterviolence, terrorism and counterterrorism, that can destroy the fabric of any society.—if you look at some of the developed countries in Europe that have had terrorist problems, and some of the measures that have been contemplated there.

Senator LEAHY. Which causes more damage to the country, the sense of the country, the very soul of the country, the killing of the people, whether from the right or the left, or the destruction of property?

Mr. SCHNEIDER. Of course, the killing of individuals is more destructive.

PLACING BLAME FOR DEATH SQUAD ACTIVITY

Senator LEAHY. Are there more death squads operating on the right or on the left?

Mr. SCHNEIDER. I consider all of the guerrillas to be death squads, so I would say that my inclination would suggest that there are more death squads on the left than the right.

Senator LEAHY. So on the left, they have killed more noncombatants?

Mr. SCHNEIDER. That would be my guess in that the civilians who have died have been largely as a consequence of leftist violence.

Senator LEAHY. So it is the testimony of the administration that the majority of the deaths of noncombatants has been caused by the guerrillas or by the forces of the left.

Mr. SCHNEIDER. Either directly or indirectly.

Senator LEAHY. Would it surprise you at all if others in the administration have taken exactly the opposite tack?

Mr. SCHNEIDER. Yes; I have heard contrary expressions, but my view of what has stimulated a fight where innocent civilians get killed in crossfire, for example, or where they may have, in fact, been directly wounded by a government trooper.

Senator LEAHY. I am not trying to debate your point, Mr. Schneider. I just want to make sure I understand the administration's position on this.

Could I have a line item listing of how you propose to spend the supplemental military aid request for El Salvador. Do you have that with you?

General GAST. I can provide it very quickly to you, I have provided it to other Congressmen.

Senator LEAHY. I beg your pardon?

General GAST. I can provide it very quickly. I have provided it to other Congressmen who have also asked for it.

[The information follows:]

EL SALVADOR—FISCAL YEAR 1984 SUPPLEMENTAL REQUEST

[In millions of dollars]

	March	July
Ammunition (all Army lines)	8.5	4.0
Ammunition (Air Force)	2.5	1.0
Armaments (non-RMTC)	7.3	2.0
Ground maneuver forces	5.6	1.4
RMTC trainers	1.6	
Training (less RMTC)	11.5	3.5
Individual clothing/general supplies	6.5	.3
Communications equipment	2.0	1.0
Medical supplies	1.0	1.0
Batteries	0.45	0.3
Communications spares	0.4	0.25
Air Force spares/equipment	0.5	0.5
Helicopter spares	0.7	0.4
Automotive spares	0.3	0.2
Weapons spares	0.2	0.1
Navy spares	0.3	0.3
Engineer equipment		9.2
Communications equipment	2.0	
Air Force equipment	16.0	19.3
Navy equipment		12.5
Artillery		4.3
Vehicles	13.0	5.7
Log center		3.1
Training		13.0
Medical equipment	12.5	
New units equipment		2.7
Totals	92.75	85.95

M-16 INVENTORY

Senator LEAHY. How many M-16's are currently on inventory in El Salvador? Do you know?

General GAST. I am sorry, I don't have that information.

Senator LEAHY. Can you get that number?

General GAST. Surely. Yes, sir.

[The information follows:]

Since 1980, 43,925 M-16 rifles have been sold to El Salvador. Of those 2,163 have been lost or destroyed. The balance of 30,762 remain in the Salvadoran inventory.

CREW-SERVED WEAPONS IN INVENTORY

Senator LEAHY. How many crew-served weapons are currently on inventory in El Salvador? If we could get that, too. How many have we sent them since 1980, and how many are currently on inventory?

[The information follows:]

The United States has provided 1,643 crew-served weapons to the El Salvadoran armed forces since October 1, 1980. These weapons are currently on inventory except for 126 crew-served weapons captured by the enemy during this period.

In Honduras, in the Regional Military Training Center, which to my understanding was set up in 1983, when was this center presented to the committee? Did I miss something in here?

General GAST. Sir, I don't believe that it was presented to the committee. We have expended about $5 million of Salvadoran money, as well as Honduran, in setting up the firing ranges, the training ranges, the tents, and so forth in there. It certainly was generally discussed. It was not intended to be withheld from the committee. We thought that it was a program that was generally supported by the Congress.

Senator LEAHY. What forces have used or will use the center?

General GAST. So far the El Salvadoran and Honduran forces have been training there, sir, and there may be others in the future.

Senator LEAHY. What about Guatemalans?

General GAST. None at all, sir, to my knowledge.

Senator LEAHY. What more moneys will be expended on it, do you know, General?

General GAST. There is a line item requesting $25 million in the fiscal year 1984 supplemental, and another $20 million for fiscal year 1985. We created a special line item for RMTC so that the Congress could see the kind of training we do there, and the expenditures, which would include the cost of running the place, replacing tents, putting up some wooden shelters, and so forth.

Senator LEAHY. To make it a more permanent type of facility?

General GAST. Yes, sir. We want to get out of the business of training down there, and try to introduce other countries to the training.

THREATS TO AID CONTRACT EMPLOYEES

Senator LEAHY. Mr. Schneider, have AID contract employees been threatened by death squads?

Mr. SCHNEIDER. Have they?

Senator LEAHY. Yes.

Mr. SCHNEIDER. I know that there have been murders of AID contract employees. I am not personally aware of these, although I recall that at the hearing the other day, you read a letter that was allegedly directed at these employees.

Senator LEAHY. The reason I ask is that there was $200,000 that was requested for bodyguards for the AID employees down there, partly because of public threats made by Mr. D'Aubuisson and others. Do you know anything about that?

Mr. SCHNEIDER. No; Mr. McPherson would be acquainted with that.

Senator LEAHY. Do you have any idea why they would be spending $200,000 on bodyguards?

Mr. SCHNEIDER. In general, it is a very dangerous place, Senator, and I could imagine that people would be concerned about their security, whether or not they were in politics.

JORDAN

Senator LEAHY. We had some discussion the other day with Secretary Shultz—I apologize for not being here earlier, but we were having matters involving confirmation in another committee on which I serve.

There is a request for some new weapons for Jordan, I believe; is that correct?

Mr. SCHNEIDER. In the budget?

Senator LEAHY. Yes.

Mr. SCHNEIDER. Yes; we have a request for foreign military sale financing for Jordan; that is correct.

Senator LEAHY. What is it that we are going to sell them?

Mr. SCHNEIDER. Do you have the list?

General GAST. Yes.

There is a total of $95 million in the request for fiscal year 1985, sir. This is not for any specific item, rather it is more for O&M to maintain the air defense system that they have, their helicopters, the aircraft that they have purchased from us in the past, F–5, M–48 tanks, and so forth. There is no provision within those moneys for any particular acquisition.

STINGER NOTIFICATION

Mr. SCHNEIDER. You may be referring to the Stinger, Senator.

Senator LEAHY. The Stinger notification, in other words.

Mr. SCHNEIDER. They would be using their own resources to buy that. That would not be purchased under FMS financing.

Senator LEAHY. That was just the 30-day notification?

Mr. SCHNEIDER. Yes, sir.

Senator LEAHY. What is the administration's position on that?

Mr. SCHNEIDER. We are recommending that the sale go forward, Senator, the rationale being that owing to the events in the region, where Syria is assumed to turn its malignant intentions from Lebanon to Jordan, that they may well seek to take Jordan over by force of arms, thereby placing Israel in grave jeopardy by putting Syria in a position of being, in effect, on all of its contiguous borders, save the border with Egypt.

Senator LEAHY. There are a number of Senators on this subcommittee, when Secretary Shultz was here, who expressed their view that they were opposed to such sales. I believe that the chairman of the subcommittee may have taken that same position.

Mr. SCHNEIDER. And Senator Inouye.

Senator LEAHY. And Senator Inouye.

Faced with opposition to the sale, what would be the administration's position, will they lobby heavily to allow the sale, or will they say, OK, we tried and lost? What is going to be the position of the administration? I ask only from the perspective of a political scientist in case I ever write my memoirs.

Mr. SCHNEIDER. I will respond from the perspective of a mere witness.

Senator LEAHY. Aren't we all.

Mr. SCHNEIDER. The President is strongly committed to this sale. He has had discussions about the security situation in the region with, most recently, King Hussein and President Mubarak. He believes that this transfer is in the U.S. interest.

We have taken specific steps in connection with this sale, and as a precedent for all future sales of hand-held air defense weapons, to require that the weapon be broken into two constituent parts, the missile itself and the launching mechanism, and they would be obliged to be stored in separate facilities, logged by serial number, and be vulnerable to random access, so as to reduce the prospect of the weapons disappearing into terrorist hands. This is in addition to the controls that we otherwise have on these weapons.

Senator LEAHY. How will you verify that?

Mr. SCHNEIDER. By inspection.

Senator LEAHY. U.S. inspection?

Mr. SCHNEIDER. U.S. inspection, yes.

JOINT LOGISTICS PROGRAM WITH JORDAN

Senator LEAHY. There was an expression by some that when the administration worked with Jordan on what is called, for want of a better term, a rapid deployment force, that was then killed by the Congress, there was lukewarm support at best from the administration. Do you have any feelings about that?

Mr. SCHNEIDER. The administration supports the joint logistics program with Jordan. The program, unfortunately, is still classified, and I am unable to discuss it in detail.

Senator LEAHY. I was just referring to what was in the public press on it.

Mr. SCHNEIDER. The administration is supporting both the Stinger sale and the Jordan logistics program.

Senator LEAHY. There has been some discussion of Mr. D'Aubuisson seeking a visa to come to the United States prior to the elections in El Salvador. Do you know anything about that?

Mr. SCHNEIDER. I have read the reports. As far as I know, no visa has been issued.

Senator LEAHY. He has not been in the country without a visa, to your knowledge?

Mr. SCHNEIDER. It is not known to me.

SUBMITTED QUESTIONS

Senator LEAHY. Mr. Schneider, I appreciate your testimony. I do have a number of questions that, as I have already stated, are for the record. I would like the answer to those as quickly as possible.

Mr. SCHNEIDER. Sure.

Senator LEAHY. Let me make a further statement on that. The record will be kept open for the chairman, the ranking member, and anybody else who has questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

THE FUTURE OF LEBANON

Senator Kasten: We are seeing a great deal of second guessing about U.S. policy in Lebanon. I would like to invite your comments on that situation. What is your assessment of the future of that country, and also whether or not you are still requesting those funds slated in the budget for fiscal year 1985?

Secretary Schneider: Fundamental U.S. policy toward Lebanon has not changed: we support an independent, unified and sovereign Lebanon oriented toward the West. We wish to promote long-term stability there. Our policy also calls for the withdrawal of all foreign forces from Lebanon and security for Israel's northern border.

The deep-rooted divisions between confessional groups in Lebanon have existed for a long time. It will also probably take a long time before the Lebanese will be able to put their differences behind them. Nonetheless, we support Lebanese efforts to find a non-violent political solution to their problems.

We have requested $20 million in ESF for FY85. We hope that the situation will improve to the point that these funds can be used effectively to promote peace and stability in that country. Since FY85 funding will not be available until October of this year and will remain available through September 1985, we believe it is prudent to leave the request intact.

MOTIVES BEHIND CIVILIAN DEATHS IN EL SALVADOR

Senator Kasten: Opponents of U.S. policy in El Salvador lead us to believe that the government is responsible for most deaths in that country. We have, for instance, the sensational charges by former Ambassador White. Others suggest there is no way to determine the motive behind many of those murders. They maintain that many are non-political or the result of vendetta.

This has to do with the lack of civic culture in El Salvador. They then claim that the murders that can be attributed to political motives are divided equally between the right and the left.

Is that a true account? If so, why doesn't the State Department publicize the fact?

Secretary Schneider: The Department of State concurs with the suggestion that there is no way to determine the motive behind many civilian deaths in El Salvador. When we enter the realm of assigning responsibility for civilian deaths, it is difficult to come by hard statistics. Using our own methodology of press reports, there are simply too many cases where deaths were caused by unknown assailants to allow us to statistically represent responsibility in a meaningful way.

Because of these difficulties, the Department of State has regarded statistics as useful in looking for trends rather than to try to determine who is responsible for what percentage of the killing. In this respect, we are pleased with the steady decrease in the number of civilian deaths over the last three years, from over 800 a month in late 1980 - early 1981 to 68 for February 1984. More must be done, but progress has been made.

Senator Kasten: Last August, the Council for Inter American Security prepared a report based on foreign broadcasts and press reports from the Central American area, including claims by the Salvadoran guerrillas themselves. Accordingly to these broadcasts, monitored by the Foreign Broadcast Service (FBIS), from October, 1979 to January, 1983 there were 21,945 victims of revolutionary violence in El Salvador, including 12,870 deaths. Yet, opponents of our involvement in El Salvador give the impression that all the deaths there are the work of government supported "death squads."

If there is something to the FBIS tally, why doesn't the State Department publicize them?

Secretary Schneider: FBIS contains translated news items and commentary monitored from foreign broadcasts. It does not tally or evaluate that primary material received, and its reports generally do not differentiate between military deaths in combat and civilian deaths attributable to political violence. State Department reports, however, list only those deaths attributable to political violence.

It is difficult to discern from the statistics which group is responsible for which incidents, but we know that the truth of the matter is that the guerrillas are directly responsible for a large amount of human suffering. They have chosen the armed path to power, and are showing increased indifference to the death and destruction caused by their actions. The recent bombings in San Salvador, the ambush of a Red Cross ambulance, the assassination of deputies, the overt threats against villagers wishing to participate in election campaign activities and the murder of civilian train passengers bear witness to this.

Despite the promises of their spokesmen, the guerrillas are actively disrupting El Salvador's electoral process. The thought of a massive vote, as in 1982, must be a cause of great concern to them, and so it should be. In 1982, the guerrillas called upon voters to boycott the polls or cast blank ballots. They were ignored. This suggests a weak popular base, something the Salvadoran Catholic Church has periodically commented on. Yet the guerrillas, claiming to be the people's vanguard, continue their armed quest for power, and I would suggest that this is a principal cause of El Salvador's violence.

There is no doubt that El Salvador's violent right is responsible for considerable death. There is also no doubt that the security forces have abused and killed civilians. But the government has made major progress in curbing death squad terror and security force abuse. According to our press report methodology, there were 68 civilian deaths last month due to political violence. This compares to just under 100 in

December 1983 and over 800 when we began counting in October 1980. Since the beginning of this year, we are unaware of any confirmed death squad assassinations by the violent right. This progress does not come about by itself. It is the result of hard work and democratic reform on the part of El Salvador's government.

It seems to me, Senator, that this approach is a more comprehensive and better form in which to rebut critics of our policy in El Salvador.

GREEK GOVERNMENT SUPPORT OF UNITED STATES

Senator Kasten: A lot of Americans, including a lot of Greek Americans, are wondering aloud why we are providing that country with such substantial assistance in the face of the current government's attitude toward the United States, United States foreign policy, and for that matter, NATO policy.

It might be helpful to us in order to alleviate this concern if you could detail for us instances where the Greek Government has supported the United States. Can you do that?

Secretary Schneider: It is true that the US has had differences with Greece on a number of major foreign policy issues, such as INF deployment in Europe, arms control, the Korean Airlines shootdown, Poland, Central America, and the Middle East. These must be considered, however, in the larger context of relations between two democratic allies whose perspectives can differ but also coincide. Greece has been an important member of NATO since 1952, and a full member of the European Community since 1981, and plays an important role in these key Western institutions.

With regard to specific areas of agreement, Greece recently concluded a new Defense and Economic Cooperation Agreement (DECA) with the United States. In reaching this Agreement, we maintain our existing facilities in Greece on terms acceptable to both governments, including a U.S. commitment to provide defense support to Greece. During its term as Presidency country of the European Community (July-December 1983), Greece conducted the traditional liaison on political issues with the United States in a professional and thorough manner. Greece has since the fall of 1982 voted in favor of Israel's participation in the United Nations and its specialized organizations. Greece also participated in the evacuation of the PLO from Beirut in 1982 and from Tripoli in 1983.

SECURITY ASSISTANCE FOR GREECE

Senator Kasten: Also with reference to Greece, is our assistance package to Turkey, which is causing some problems, partially because of the concern over recent efforts in Cyprus and partially because some believe the Administration has broken the recent Agreement by providing Turkey with aid in excess of the 7 to 10 ratio and aid which is more concessional.

Does the Agreement signed between the United States with Greece contain a clause whereby the United States would agree that military assistance for Greece and Turkey would be based on the 7 to 10 ratio?

Secretary Schneider: The Defense and Economic Cooperation Agreement between the U.S. and Greece, which was signed on September 8 of last year, does not include any commitment by the United States Government to maintain a 7 to 10 ratio in furnishing military assistance to Greece and Turkey. The text of that Agreement includes, in Article VIII, a reference to our obligation under U.S. law to preserve the balance of military strength in the region. We do consider this balance in framing our military assistance proposals, but this balance is based on a number of factors including the needs and economic strength of receiving countries. Our aid is only one of a number of elements which determine that balance, and adoption of a fixed ratio for U.S. assistance to these two countries is not a reasonable or practical way of ensuring a balance. The automatic ratio concept has not been accepted by this or previous Administrations. But I would emphasize we do pay close attention to preserving the balance of military strength between the two countries, as required by Congress.

Senator Kasten: Does the Agreement say anything about the concessionality of the assistance which would be provided to Greece and Turkey?

Secretary Schneider: There is nothing on this in the Agreement itself. A side letter to the Agreement confirmed the Administration's request to the Congress for $500 million in Foreign Military Sales Financing for Greece for Fiscal Year 1984. This letter also stated "I wish also to inform you that it is the intention of my government to make available such financing on terms particularly favorable to Greece." This sentence referred to our intention to recommend to the Congress that Greece benefit again in Fiscal Year 1984 from the extended repayment terms of 10 years grace and 20 years to repay, which are very favorable terms extended only to six countries in Fiscal Year 1984. We are recommending to Congress that Greece continue to receive these favorable terms in Fiscal Year 1985. The side letter does not constitute any U.S. commitment to include Greece in the new concessional FMS credit category which has been proposed to Congress. This new proposal has been developed to meet the potential repayment problems of certain recipient countries, and in our view must be based on economic criteria.

TURKEY: BENEFITS TO U.S. FROM BILATERAL RELATIONSHIP

Senator Kasten: Our assistance proposal to Turkey is justified basically on that country's vital importance to United States security and NATO security. Can you give the Subcommittee your assessment on just how important Turkey is to those concerns?

Secretary Schneider: By virtue of its strategic location Turkey makes an invaluable contribution to NATO. It controls Soviet access to the Mediterranean and abuts potential invasion routes to Southwest Asia and the Gulf. Its large armed forces pin down a significant number of Soviet and Bulgarian units which otherwise could be diverted to the Central Front.

We derive critical information, not easily duplicated by other means, on Soviet military activities in the Black Sea and Central Asian region from the Turkish facilities which we utilize.

In the past 18 months we have concluded key military agreements with Turkey. The Co-located Operating Base agreement, which formalizes plans for deployment of USAF units to Turkey in event of a NATO contingency, involves construction of airbases in eastern Turkey. This will permit the deployment of Turkish forces from the west to the east and also will have a real deterrent effect on Soviet threats to Southwest Asia. Our MNF resupply agreement is another important development, demonstrating, for the first time, in a concrete way, Turkish Government support for a peaceful solution of the Lebanon problem.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

AID TO CENTRAL AMERICA

Senator Hatfield: On page 7 of your statement you state that, "our non-project assistance will be conditioned on implementation of reforms crucial to the effectiveness of our assistance, and to the establishment of policies which will ensure sustainable economic growth." Previous to this statement you mention that there are concerns about absorption and accountability.

Would you please provide the Committee an idea of what specific reforms you will undertake to improve the effectiveness of U.S. assistance to Central America?

Secretary Schneider: While the barrage of recent allegations and criticisms in the press are vastly out of proportion to the real circumstances of our economic assistance programs in Central America, this is not to deny that some problems exist. Such problems can be expected as a natural corollary of the development process.

A.I.D. maintains a generally effective set of controls that assure appropriate use of our funds directed towards achievement of mutually agreed objectives. A.I.D. Mission personnel work closely with counterpart officers in recipient government agencies to plan and implement A.I.D.-financed projects. Project outputs and expenditures are reviewed by technical officers and controller personnel in our Missions to verify eligibility and reasonable cost. Our Missions use locally-contracted audits, independent audits by the Inspector

General's Office, and independent evaluations to assess performance and financial accountability. Finally, a substantial portion of our assistance is directed at establishing effective management and financial control systems within recipient government agencies.

We will reinforce all of these management measures in the initial stages of the period encompassed by the Kissinger Plan. In particular, we plan the following actions to assure effectiveness of and controls on the use of our economic assistance:

- an addition of 82 persons to Mission staff in Central America (22 U.S. direct hire; 22 foreign national employees; 23 U.S. contract persons; and 15 foreign national contractors) directly engaged in program design, implementation, and oversight. Including recent assignments, we plan to increase U.S. direct hire staff by one-third over FY 83 levels;
- regional audit capability will be doubled, by adding 6 Spanish speaking U.S. auditors and 6 foreign national audit personnel;
- special emphasis on institutional strengthening and human resource development in the initial years of the plan period, particularly in countries where we propose an increase in Development Assistance project-funding;
- increased reliance on A.I.D.-financed contractors to initially supplement recipient government offices responsible for financial management, procurement, and logistics support and to help upgrade the capabilities of these offices;
- under balance of payments assistance program, continued emphasis on strengthening overall management of foreign exchange by central banks and establishing reliable controls against potential financial abuses, e.g., price-checking units.

Senator Hatfield: Could you provide for the committee a specific breakout of the funding that was used to construct the RMTC?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: This would include the accounts used and the countries from which this funding was provided?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

REGIONAL MILITARY TRAINING CENTER

Senator Hatfield: How much additional funding will be needed to complete construction and maintain the RMTC? From what accounts and countries will this funding be provided?

Secretary Schneider: The FY 84 supplemental contains $19 million for construction and maintenance, and the FY 85 Program includes $16 million for the same -- out of the FY 84 supplemental request of $25 million and the FY 85 request of $20 million. This funding will come from the Regional Military Training Center (RMTC) line in the FY 85 Congressional Presentation Document (CPD).

Senator Hatfield: Was specific Congressional authorization provided for construction of the RMTC? If so, when was the authorization provided and by what committees? If not, under what authority was construction undertaken? Was this authority provided under legislation or appropriations acted upon by the Subcommittee on Foreign Operations?

Secretary Schneider: The Administration consulted with the Senate Foreign Relations and House Foreign Affairs Committees prior to the establishment of the RMTC. There was wide recognition that the RMTC was the best way to provide much-needed, large-scale, low-cost training, in a realistic environment outside of El Salvador, thus making it possible to accomplish the training without an increase in the number of trainers in El Salvador. Congress was provided the text of the Terms of Reference for the RMTC following their adoption by the U.S. and Honduras on June 16, 1983. FMS guaranteed financing and MAP funds, authorized and appropriated for El Salvador and Honduras under the authority of the Arms Export Control Act and the Foreign Assistance Act, were used to establish the current austere, temporary facilities. The Subcommittee on Foreign Operations acted upon the appropriations from which the funding was derived.

Senator Hatfield: On page 9 of your statement you mentioned "the construction of more permanent facilities." What facilities have been constructed?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: What facilities will be constructed with FY 1984 supplemental and FY 1985 monies?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: What additional facilities are contemplated for construction in the future?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: Does this funding represent the total cost of funding and financing of the RMTC or is it being jointly funded with other countries in the region?

Secretary Schneider: The $25 million requested in the FY 1984 supplemental and the $20 million requested for FY 1985 would cover the total construction costs of a more permanent facility, as well as fixed operating and maintenance costs. Additional, variable costs would be charged to the military assistance allocations of countries receiving the training, or they could make cash payments for such costs.

Senator Hatfield: Does the Honduran government or the United States view the RMTC as a permanent training facility?

Secretary Schneider: We do not believe the Honduran government regards the current austere facility as permanent. However, if the funds requested for the RMTC in the FY 1984 supplemental and for FY 1985 are approved, thus enabling the construction of a more permanent facility, both we and the Honduran government would regard it as a valuable regional facility which could satisfy large-scale regional military training needs for many years.

Senator Hatfield: How do the activities and operations at the RMTC interface with the Big Pine I and II exercises and the upcoming Granadero and Big Pine III exercises? Will the training provided at the RMTC be undertaken in conjunction with either of those upcoming exercises?

Secretary Schneider: There is no interface between the RMTC and the exercises that have been held or are scheduled in Honduras. To date no exercise named Big Pine III has been scheduled. (What has been on occasion referred to as Big Pine III is actually Granadero I.)

Training at the RMTC during the period that Granadero I will be conducted is separate and distinct from the exercise.

Senator Hatfield: How does the training at the RMTC relate to training the U.S. has provided in Panama? Is the training similar or different? What is the necessity for two training centers within the same region?

Secretary Schneider: The RMTC is designed primarily for unit training at the platoon, company and battalion level. The U.S. schools in Panama provide training in technical and special skills and conduct professional development courses. This type of instruction is considered individual training. Training at both locations is consistent with U.S. military tactics and doctrine, and both types of training, individual and unit, complement each other very well.

U.S. training facilities in Panama are not sufficient in size to accommodate continuous unit training at the levels required by Central American countries, nor is the terrain in the Panama training area suitable for the type of training being conducted at the RMTC. Since the training structure is different (unit vis-a-vis individual training) facilities were required outside of Panama. The selection of the Honduras site for unit training, with emphasis on providing training for Honduras and El Salvador, was considered most cost-effective.

Senator Hatfield: How many soldiers have been trained at the RMTC and for what battlefield missions?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: How many will be trained during the remainder of FY 1984 and FY 1985 and for what battlefield missions?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Hatfield: Can this training take place in Panama?

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

SECURITY ASSISTANCE FOR GUATEMALA

Senator Hatfield: On pages 15 and 16 you state that, "disbursal of these funds ($10 million in FMS, $300,000 in IMET and $35 million in ESF) to Guatemala would be contingent on continued progress in returning to elected democratic processes and improved rights." What specific events or actions must occur to release these funds? How will notification of release be provided to Congress?

Secretary Schneider: The Guatemalan Government has committed itself to a schedule for the election of a Constituent Assembly, the drafting of a new Constitution, and the subsequent transfer of executive authority to a freely-elected civilian administration. Compliance with this schedule would, I think, certainly constitute excellent progress in returning to a democratic regime. We would, in addition, very much hope to see this progress accompanied by considerable improvement in the human rights situation. We intend to maintain close consultation on this matter with the appropriate committees of the Congress.

MILITARY ASSISTANCE

Senator Hatfield: On January 19, 1983, the General Accounting Office (GAO) completed a study on the use of loans to support the Foreign Military Sales Program. I note that the FY85 request incorporates the major recommendation of that study to bring the program on budget and thereby reduce the debt burden on the major recipient countries. Nevertheless, countries such as Egypt, Israel and Turkey have large levels of outstanding principal and interest payments.

Are you confident that these nations will be able to repay both principal and interest?

Secretary Schneider: The loans made to Egypt, Israel and Turkey were made in the full expectation that they would be repaid. However, we assumed that the countries would pursue sound economic policies and that the global economic environment would be favorable.

A country's ability to repay its debts depends on a number of factors. Some are largely beyond a country's control, e.g., whether its primary export markets are strong enough to allow a country to earn foreign exchange it needs to service its debts. Another factor, in some cases, is the willingness of a country's people and leadership to agree to economic adjustments designed to improve long-term growth prospects but often politically painful in the short run. We continue to encourage countries with insupportable payments imbalances to take necessary measures to improve prospects for sustainable, long-term growth. With appropriate economic policies, we are confident that all three countries can stay current on principal and interest payments associated with their FMS debt.

Senator Hatfield: Is not the complete forgiveness of loans to Egypt and Israel, as well as partial forgiveness of loans to Turkey, a recognition that these problems are real and very serious?

Secretary Schneider: We have requested a combined total of $2.575 billion in forgiven FMS financing for Egypt and Israel. For Turkey our request is for $230 million in MAP grants, $250 million in FMS concessional financing and $275 million in FMS Treasury rate financing. The grant and concessional nature of these requests is indeed a recognition that the debt burden faced by these countries is a serious one. Our FY 1985 proposal to bring the entire FMS financing on-budget, thereby facilitating a concessional loan program to selected countries, is an attempt to respond to the serious debt problems which face not only Egypt, Israel and Turkey, but also many other developing countries. This concessional assistance initiative was recommended by the Carlucci Commission and has strong bipartisan support. It will reduce future increases in debt burdens resulting from military purchases and reduce the likelihood of future defaults and arrearages.

Senator Hatfield: Would the U.S. support complete forgiveness of the outstanding debt?

Secretary Schneider: While forgiveness of past debt would, of course, ease the overall debt burden of these three countries, we believe that the debt resulting from purchases of military equipment and services is but one component of their total debt burden. It is a large but not a decisive component. The Administration's proposal to provide only forgiven FMS financing for Egypt and Israel in FY 1985, i.e. grant, will eliminate future increases in debt service resulting from U.S. military purchases. Likewise, the request for a combination of MAP grant and FMS concessional financing for Turkey was designed to reduce debt pressures. As I indicated previously, we believe that the outstanding FMS debt will be repaid by these three countries, if they pursue appropriate economic policies, the global economic environment does not deteriorate and they are not involved in major hostilities. We therefore do not believe that forgiveness of their outstanding FMS debt is warranted or necessary nor do we believe that the sizeable appropriation that would be necessary to repay the FFB for the forgiven debt would be appropriate given the overall need for fiscal restraint in the federal budget.

Senator Hatfield: What countries find themselves in the position of being "in danger of defaulting on repayment of loans"? Could you provide a breakout of those countries that are in this position (the debt they owe) and those countries which are either late in repaying loans or have rescheduled loan payments?

Secretary Schneider: We are not in a position to know exactly which countries may be unable to make prompt repayment of FMS loans in the future. However, attached are two tables which show late payment and rescheduling activity through September 1983 for those countries which have been in arrears on FMS repayments. Barring a dramatic improvement in the economic situation of those countries which have occasionally been in arrears, it is likely that any future arrearages may be found among those same countries. The FMS debt status and consolidated repayment schedule as of September 30, 1983, for each country having received FMS loans, can be found in the individual country tables located in the FY 1985 security assistance Congressional Presentation Document.

Guaranty Reserve Fund Activity Report
Part I
Late Payment Activity.

Historical Disbursements and Recoveries for Late Payments

Country	FY 80 and prior	FY 81	FY 82	FY 83 (As of 9/30/83) Late Pmts	FY 83 (As of 9/30/83) Recoveries	Cummulative Data Total Payments Thru 9/30/83	Cummulative Data Total Recoveries Thru 9/30/83	Cummulative Data Unpaid Thru 9/30/83
Bolivia	2,665,861	1,653,207	1,552,527	1,457,179	3,213,629	7,328,854	5,871,674	1,457,180
Botswana	0	0	0	104,550	104,550	104,550	104,550	0
Brazil	0	0	0	552,181	0	552,181	0	552,181 *
Cameroon	0	988,109	1,019,199	3,172,563	2,366,538	5,179,871	4,373,846	806,025
Colombia	2,244,817	2,124,004	894,116	0	0	5,262,937	5,262,937	0
Costa Rica	0	612,216	1,156,653	535,901	1,156,564	2,304,770	1,768,869	535,901
Dom Rep	701,053	0	707,302	1,675,361	1,356,903	3,083,716	2,057,956	1,025,760
Ecuador	0	0	1,452,639	7,800,082	4,252,254	9,252,721	5,704,893	3,547,828
Egypt	9,592,832	0	0	160,992,671	160,992,671	170,585,503	170,585,502	1
El Salva	0	394,494	2,256,563	4,175,957	2,237,389	6,827,014	4,888,446	1,938,568
Gabon	512,098	0	0	1,174,761	1,174,761	1,686,859	1,686,859	0
Guatemala	0	0	156,972	42,834	42,834	199,806	199,806	0
Haiti	0	54,431	66,810	193,461	198,545	314,702	259,883	54,819
Honduras	364,898	0	666,431	1,030,727	675,573	2,062,056	1,706,901	355,155
Jamaica	0	0	66,449	56,732	56,732	123,181	123,181	0
Jordan	32,979,262	0	31,486,992	79,238,961	62,920,508	143,705,215	104,951,701	38,753,514
Kenya	4,289,934	139,655	1,831,270	3,117,105	4,147,411	9,377,964	8,938,270	439,694
Lebanon	952,492	8,280,598	21,374,794	11,946,844	15,243,364	42,554,728	42,554,728	0
Liberia	0	287,103	1,774,443	2,172,308	1,224,828	4,233,854	2,130,730	2,103,124
Morocco	37,640,343	42,985,857	40,167,343	41,491,069	28,773,050	162,284,612	120,793,541	41,491,071 **
Nicaragua	3,410,273	0	0	0	0	3,410,273	3,020,917	389,356
Niger	0	0	94,612	77,762	172,375	172,374	172,375	-1
Oman	0	3,259,342	0	0	0	3,259,342	3,259,342	0
Panama	0	0	0	222,727	222,727	222,727	222,727	0
Paraguay	186,772	-11,401	0	0	0	175,371	175,371	0
Peru	1,912,380	551,309	0	2,616,908	848,314	5,080,597	3,312,003	1,768,594
Rwanda	0	0	19,074	268,334	268,334	287,408	287,408	0
Senegal	381,550	2,219,094	1,383,425	-1,451,381	0	2,532,688	1,880,217	652,471 ***
Somalia	0	0	1,023,062	2,898,313	1,023,062	3,921,375	1,023,062	2,898,313
Spain	0	0	0	202,107	172,949	202,107	172,949	29,158
Sudan	120,768	1,283,796	-122,508	12,751,194	0	14,033,250	312,260	13,720,990
Taiwan	0	0	0	2,940,448	0	2,940,448	0	2,940,448
Thailand	0	0	0	555	0	555	0	555
Tunisia	1,103,147	0	55,872	1,215,778	1,215,778	2,374,797	2,371,648	3,149
Turkey	1,305,529	1,642,497	0	15,194	0	2,963,220	2,940,427	22,793
Uruguay	0	0	0	986,227	986,227	986,227	986,227	0
Zaire	0	104,186	429,474	831,778	429,475	1,365,438	533,661	831,777
Totals	100,364,009	66,568,577	109,513,514	344,507,191	295,478,145	620,953,291	504,634,867	116,318,424

* Includes amounts to be rescheduled under Paris Club agreement of 11/23/83.
** Includes amounts to be rescheduled under Paris Club agreement of 10/25/83.
*** Includes amounts to be rescheduled under Paris Club agreement of 12/21/83.

Guaranty Reserve Fund Activity Report
Part II
Rescheduling Detail

Historical Disbursements and Recoveries for Rescheduled Payments

Country	FY 1980 and prior	FY 81	FY 82	FY 83 (As of 9/30/83) Resched	FY 83 (As of 9/30/83) Recoveries	Total Rescheduled Thru 9/30/83	Total Recoveries Thru 9/30/83	Unpaid Thru 9/30/83
Liberia	0	962,825	472,503	972,770	58,298	2,408,098	82,974	2,325,124
Peru	8,834,940	0	0	0	1,769,269	8,834,940	3,536,251	5,298,689
Senegal	0	0	0	2,767,425	70,950	2,767,425	70,950	2,696,475
Sudan	0	0	7,535,304	2,148,763	0	9,684,067	0	9,684,067
Turkey	141,669,349	96,544,841	99,353,790	89,481,586	22,645,813	427,049,566	39,988,392	387,061,174
Zaire	10,490,500	0	0	0	1,146,305	10,490,500	6,865,934	3,624,566
Totals	160,994,789	97,507,666	107,361,597	95,370,544	25,690,635	461,234,596	50,544,501	410,690,095

GRF Balance Activity

Opening Cash Balance as of 9/30/82				918,562,211
	Late Payments	Resched	Total	
Totl Rec	295,478,145	25,690,635	321,168,780	
Totl Disb	344,507,191	95,370,544	439,877,735	
Closing Cash Balance as of 9/30/83				799,853,256

Senator Hatfield: Could you also provide for the Committee, country by country, the specific economic factors involved in determining those nations that are proposed to receive concessional, on-budget loans.

Secretary Schneider: The primary considerations which we used in determining which countries should receive concessional FMS financing in FY 1985 were economic need and the ability of a recipient country to repay. In deciding on the specific economic criteria to use in calculating a country's economic need for concessional FMS financing, we examined the various criteria utilized by other international lending organizations, such as the World Bank. While per capita income is a salient and perhaps overall the most useful determinant, to rely on it exclusively would lead in certain cases to distortions in which we would be forced to provide concessional assistance when it was not really justified. Therefore we try to balance that factor by looking at other criteria such as debt service ratio as a percentage of export earnings, and the general prospects for economic growth. In the case of each country, we attempt to produce a complete picture not only of a country's needs today, but also of the prospective recipient's capacity to repay in the future.

LEBANON - ESF

Senator Hatfield: Could you provide for the Committee a breakout of how much of the $150 million in ESF the Congress provided in the FY 83 supplemental for Lebanon has been spent and for what purposes?

Secretary Schneider: $24.7 million of the $150 milliion in ESF for Lebanon has been obligated for projects as well as for relief activities. About half this amount is being, or has been, expended and half has been added to contracts but not used. Funding is provided to the United Nations, the International Red Cross and U.S. voluntary agencies to distribute relief supplies throughout Lebanon. A number of U.S. voluntary agencies are also carrying out projects in Lebanon. Save the Children Federation has an ongoing project which makes loans available to small farmers and shopkeepers; $4 million has been expended. Catholic Relief Service is invovlved in a project for reconstruction of hospitals, schools, and other social institutions; about $1.25 million has been spent. For the larger reconstruction projects, about $2 million out of $4 million obligated has been spent for emergency repair of telecommunications. In the case of the water/waste management project, the funds obligated have not been utilized. In addition, $3.6 million has been given to the American University in Beirut. The remaining $125.3 million in ESF has not been obligated.

Senator Hatfield: Is there any intention to deobligate those funds and reobligate them for other purposes?

Secretary Schneider: We have no plans at this point to deobligate these ESF funds.

Senator Hatfield: Is there any intention to reprogram those funds for other purposes?

Secretary Schneider: The Department has begun consultations with Congress on a 614(a) waiver that would clear the way for a $40 million reprogramming from Lebanon's FY 83 ESF appropriation.

Senator Hatfield: If so, for what purposes would they be spent?

Secretary Schneider: The $40 million would be used for urgently needed programs in Grenada including completion of the Point Salines airport, repair of the mental hospital and other damage repair and development related activities.

POINT SALINES AIRPORT - GRENADA

Senator Hatfield: A prefeasibility study was recently completed for AID by Wilbur Smith and Associates on the Completion of contruction of the Point Salines Airport. The cost of completion has been mentioned at around $19 million. Does this represent the total cost to complete construction of the airport?

Secretary Schneider: The total cost of completing the Point Salines Airport is estimated to be $24 million. The U.S. contribution to this effort is expected to be about $19 million.

Senator Hatfield: Does this cost concern only completion of the airport or does it include construction of roads leading to and from the airport?

Secretary Schneider: The total cost includes upgrading approximately five miles of roadway connecting the airport with the outskirts of St. Georges.

Senator Hatfield: What sources of funding will be used to complete the airport and roads leading to and from the airport?

Secretary Schneider: We intend to use ESF monies to finance our share of the airport completion costs. The completion of the St. Georges - Point Salines Airport road may be assigned to the Canadians who plan to contribute around $5 million to help complete the airport.

Senator Hatfield: Will any Department of Defense monies be used?

Secretary Schneider: No Department of Defense monies will be used to complete either the airport or the connecting road.

Senator Hatfield: How many useable hotel rooms are currently available in Grenada?

Secretary Schneider: Presently there are about 325 international class hotel rooms in Grenada, plus about 300 guest house rooms available for visitors to the island.

Senator Hatfield: How many will be available by the projected time for completion of October, 1984?

Secretary Schneider: No additional capacity will be available by October 1984.

Senator Hatfield: How many hotel rooms are projected for completion within one year?

Secretary Schneider: Depending upon the pace of new investment in tourist facilities, another 500 international class rooms should be available within 18 months.

Senator Hatfield: Five years?

Secretary Schneider: In five years' time, we anticipate about 1,300-1,400 additional rooms will have been built.

Senator Hatfield: Who will construct these hotels? Will they be funded by the private sector or with assistance from the United States?

Secretary Schneider: We expect that U.S. and Caribbean private investors will build and finance these hotels.

Senator Hatfield: How many airlines are presently flying into Grenada?

Secretary Schneider: One airline - Leeward Island Air Transport (LIAT) - is currently flying to Grenada four or more times per day.

Senator Hatfield: How many airlines contemplate flying into Grenada when the airport is completed?

Secretary Schneider: Three international airlines, Pan American, American, and British West Indian Airlines (BWIA) have voiced interest in servicing Grenada once the Point Salines Airport is completed.

Senator Hatfield: Have any of these airlies firmly committed specific times and frequency for flights?

Secretary Schneider: None of these airlines has made a firm commitment as to frequency of proposed service.

Senator Hatfield: Are the water and power systems sufficient to support additional hotel rooms?

Secretary Schneider: Although water and power systems serving the island are not now sufficient to reliably meet current demand, plans are being prepared to improve reliability and, where necessary, to expand the capacity of both of these services.

QUESTIONS SUBMITTED BY SENATOR INOUYE

COLONEL OSCAR EDGARDO CASANOVA AND THE NEW YORK TIMES IMPLICATIONS

Senator Inouye: On Saturday, March 3, the New York Times implicated Colonel Oscar Edgardo Casanova, Commander of the Second Army Brigade, in the December 1980 slaying of four American churchwomen.

Has Colonel Casanova ever received U.S. military training? What was the nature of that training provided by the U.S.?

Secretary Schneider: Department of State biographic records contain no information to suggest that Colonel Casanova ever received U.S. military training. But, I have asked the Department of Defense to check records available there, and if I find that Col. Casanova did in fact receive U.S. training, I will inform the Committee immediately.

I should add, in all fairness, that these charges against Col. Casanova do not strike us as particularly credible. In over three years of investigations, no one other than the single source cited in the New York Times article has made this allegation. At the time of the murder, Col. Casanova was assigned to La Paz department and had no direct connection with either the areas where the churchwomen lived or the airport location where they were detained.

Senator Inouye: Is Col. Casanova, in fact, the cousin of Minister of Defense Vides Casanova?

Secretary Schneider: Department biographic records refer to Col. Casanova as a relative of Minister of Defense Vides Casanova. Because Col. Oscar Casanova's matronym is identical to the Minister of Defense's surname, they could be cousins.

Senator Inouye: Do you have any knowledge of the nomination of Col. Casanova to head an internal investigation of human rights abuses by the Armed Forces of El Salvador?

Secretary Schneider: Col. Casanova has not been named to head any internal investigation of human rights abuses by the Armed Forces. If you are referring to the new special investigative unit now being organized, the officer nominated for that position is Lt. Col. Joel Antonio Rivas.

Senator Inouye: Was Col. Casanova, in fact, the military commander in Zacatecoluca (Zac-a-tec-o-luca) at the time the four churchwomen were killed?

Secretary Schneider: In December of 1980, the time of the murders, Col. Casanova was head of the Armed Forces Engineering Instruction School which is located in La Paz Department. Zacatecoluca is also located in La Paz. The churchwomen, however, did not reside in La Paz. They lived in Chaletenango and La Union.

ASSISTANCE AND ROBERTO D'AUBUISSON

Senator Inouye: The military assistance request for El Salvador which is before the Committee today totals $311 million (FY 1984 supplemental is $178.5 million; FY 1985 request is $132.5 million). Are you confident that, if elected, Roberto D'Aubuisson would use these funds in a manner which is compatible with U.S. ideals and which would serve U.S. interests?

Secretary Schneider: We have consistently said that we will formulate our policies in accord with the policies the new president of El Salvador puts into effect. We do not wish to prejudge the policies which either Mr. D'Aubuisson or Mr. Duarte, the candidates who will face off in the run-off, may propose if they win the election.

WHY FUNDS PRIOR TO THE ELECTION?

Senator Inouye: Why should Congress appropriate these funds prior to the election in El Salvador? Is it not true that Mr. D'Aubuisson would use them in ways which would be markedly different from the ways Mr. Duarte would use them, if he were to be the victor in the election?

Secretary Schneider: I think that there is something incongruous in the United States government saying to El Salvador that we favor democracy and elections but only if the right candidate wins the election.

Mr. Duarte and Mr. D'Aubuisson campaigned on very different platforms. It is up to the Salvadoran voters to decide which candidate will best fulfill their aspirations.

The $61.75 million dollars is needed now precisely so that those elections can take place. The Salvadoran Armed Forces fulfilled their pledge to defend the first round of the elections, even to the point of taking some 50 casualties on election day from the guerrillas trying to disrupt the electoral process. Now the Salvadoran Armed Forces are running low on a number of key items.

At the present rate the Salvadorans will be out of a number of types of ammunition by late April-early May -- precisely when the second round of the election will occur. From sixty to ninety days is needed to supply many items; for some, such as vehicle spare parts to to six months lead time is required. The Salvadoran army already has 1400 men in training for whom there are no rifles. When a shipment of M-16's arrives shortly, they will still be 2000 weapons short of the minimum requirement for the next six months. Funds to train more soldiers will run out in April and May. Over 95 percent of the items of personal fighting equipment (web gear, uniforms, boots) are at zero balance now. The Army, after supplies now in the pipeline are received, will be short some 500 PRC-77 (platoon and higher level) radio sets. There is no money for squad level radio sets and never has been. Key spare parts for vehicles, helicopters, weapons, and communications sets cannot be ordered and are in short supply or have run out.

The President has proposed $49.15 million in sustainment and $12.60 million to meet minimum medical needs for supplies and medical evacuation equipment. The $61.75 million is needed to get through the election process and the summer season in El Salvador. The package is likely only to cover the absolutely bare minimum needs through June 1984. Without the additional assistance requested in the President's supplemental proposal ($178.6 million), it is unlikely that we can provide enough to finish the fiscal year, that the present long-term stalemate can be broken, or that real progress can be made in providing more extensive security to the people of El Salvador. All of the requests in the emergency proposal are included in the supplemental request formulated by the President in response to the report of the National Bipartisan Commission.

MILITARY AND THE ELECTION

Senator Inouye: Does it make any difference who is elected? Will the army run things regardless of the outcome?

Secretary Schneider: The 1.4 million Salvadorans who risked their lives going to the polls and stood in long lines despite the confusion on March 25 believe that it makes a difference who is elected. The Army has pledged itself to protect the election and to honor the results and we have every indication that they are keeping that commitment.

EMERGENCY MILITARY ASSISTANCE FOR EL SALVADOR

Senator Inouye: There has been much public discussion of the possibility that the administration would seek to provide El Salvador with emergency military assistance prior to the appropriation of any supplemental funding. Can you clarify this issue for the Committee? Do you propose to use Section 21(d) of the Arms Export Control Act to "sell" military equipment to El Salvador in anticipation of the appropriation of military assistance funds which El Salvador would then use to "pay" for the goods provided under this special provision?

Secretary Schneider: Use of Section 21(d) of the Arms Export Control Act is an option which remains under review. However, our clear preference is for the provision of funds through the President's $92.75 million emergency supplemental request.

Senator Inouye: What is the value of the materiel which is to be provided?

Secretary Schneider: The value of the requested materiel and training requested in the emergency supplemental is $92.75 million.

Senator Inouye: Has the Department of Defense been reimbursed for amounts provided in prior years under Section 506(a), the so-called "draw-down" authority?

Secretary Schneider: There have been three Section 506(a) authorizations for El Salvador: $5 million, in FY 1981; $20 million, in FY 1981; and $55 million, in FY 1982. The Department of Defense has been reimbursed for the $5 million FY 1981 drawdown, but has not yet been reimbursed for the remaining $75 million. We are requesting $50 million for FY 1985 to partially reimburse the Department of Defense. The final $25 million will be requested in a subsequent fiscal year.

MILITARY TRAINING FOR EL SALVADOR

Senator Inouye: El Salvador has used FMS credits to pay for military training, has it not?

Secretary Schneider: That is correct. El Salvador has utilized FMS credits to pay training costs.

Senator Inouye: How much of the funding being requested for El Salvador in the fiscal year 1984 supplemental would be used to finance training?

Secretary Schneider: Of the $92.75 million contained in the FY 1984 emergency supplemental, a total $13.1 million is allocated for training. Of the $86.0 million contained in the remainder of the FY 84 supplemental, $16.5 million is earmarked for this purpose. Thus, of the $178.75 million contained in the total FY 1984 supplemental, a total of $29.6 million is allocated for training.

Senator Inouye: How much of the fiscal year 1985 military assistance request is proposed for financing of training?

Secretary Schneider: Our current estimate is that approximately $9.0 million of the FY 1985 military assistance request will be allocated to training.

MILITARY CONSCRIPTION AND SERVICE IN EL SALVADOR

Senator Inouye: How does the Government of El Salvador recruit soldiers? Is conscription a matter of snatching youths off of the streets or is some effort made to conscript youths from all segments of society?

Secretary Schneider: The majority of recruits in the Salvadoran army are volunteers or re-enlistees. Conscripts account for about 10 percent of the army's strength. Recruitment of soldiers in El Salvador is marked by a high degree of decentralization. Commanders in each department are expected to fill their ranks from local manpower sources, a task made more difficult in areas where there is great deal of conflict. There have been recent incidences in which the Salvadoran army resorted to forced recruitment. The Salvadoran government has expressed concern about such actions by its commanders and has taken measures to end any such abuses. Specifically, the government is about to consider a new military service law which will regularize recruitment on a national basis, closing loopholes that permit certain groups to avoid service and obviating any resort to impressment.

Senator Inouye: What is the average age of conscripts?

Secretary Schneider: Salvadoran military service laws provide that all males between the ages of 18 and 30 are liable for military service. The majority of soldiers are believed to come from the lower end of this age span. There are younger individuals serving in the military, but their numbers are not believed to be large.

Senator Inouye: What percentage, roughly, of the enlisted ranks of the Salvadoran military has completed six years of schooling?

Secretary Schneider: There are no statistics available on the educational level of Salvadoran line troops. However, census figures for the Salvadoran population, dating from the 1970's, indicate that adult literacy stood at 50 percent in urban areas and was somewhat lower in rural areas. We believe that this profile can be applied to the enlisted ranks of the Salvadoran armed forces today.

Senator Inouye: On average, how long do the enlisted ranks spend in U.S.-financed training before they join line units?

Secretary Schneider: It is not possible to provide a meaningful average figure for U.S.-financed training, as the bulk of the Salvadoran military have not received such training. Specialized units, such as the six immediate reaction battalions, the Navy commandos, and long-range reconnaissance patrols have been the key recipients of U.S.-financed training. The training of the regular line units of the Salvadoran army is dependent on the availablity of both U.S. trainers and the Salvadoran units themselves.

Senator Inouye: With the low age, low education, and, apparently, low morale of the average Salvadoran soldier, do you think our brief training accomplishes anything of value?

Secretary Schneider: The Salvadoran military as a whole is not affected by low morale. As in any army, morale is dependent upon the quality of leadership, and the number of capable officers in the Salvadoran army far exceeds the number of those found lacking. We judge that the units who have received U.S. training, however brief, are better for it. Those units which have received more extensive training, such as the Immediate Reaction battalions, are considered the most effective in the Salvadoran army. Their performance in the field with regard to fire discipline, operations, and the rules of engagement demonstrates the value of U.S. training.

Senator Inouye: What is the length of service expected of a recruit?

Secretary Schneider: The current length of service for Salvadoran army recruits is twenty-four months.

Senator Inouye: What is the reenlistment rate?

Secretary Schneider: Reenlistment rates in the Salvadoran army are largely dependent on the condition of individual units. Units with effective leadership and consequent high morale are known to have high rates of retention of personnel. Additional factors having weight in individual reenlistment decisions are whether the unit has served in either a highly contested or a relatively peaceful zone, and whether economic prospects for a newly demobilized soldier are encouraging. While there have been notable variations in the reenlistment rates among units, there has been an overall improvement in such rates since 1980. A rough estimate for reenlistment throughout the Salvadoran army would be about 30 percent.

Senator Inouye: On the average, how long can a soldier be expected to serve after having completed training?

Secretary Schneider: Periods of training are included in the twenty-four month obligation of each recruit. However, the length of training varies according to function and specialization, so it is not possible to compute an overall average.

ADMINISTRATION PROPOSAL FOR FMS CONCESSIONAL LENDING PROGRAM FOR SELECTED COUNTRIES

Senator Inouye: Last year, I noted that substantial increases in FMS credits were proposed for Thailand, Pakistan, Turkey, and Peru, among others, and I asked if you were confident that the countries selected by your office to receive FMS-guaranteed credits had the ability to repay these loans.

Your response was positive. You indicated that your office carefully evaluates the debt situation and ability to service additional loans.

This year, you cite the findings of the Carlucci Commission and state, in your own words, "the external debt of several countries important to U.S. interest has grown to the point where they are in danger of defaulting on repayment of loans."

Has there been a sudden downturn in the economic health of these countries?

Secretary Schneider: Our request for concessional FMS programs for selected countries is not the result of events over a single year, but rather is based both on our perception of past economic progress and prospects for future economic growth. While the Carlucci Commission cited the danger of defaulting on loans as one reason for easing security assistance-related debt burdens, it did not hold that this was the sole reason for doing so. The Commission's central conclusion was that economic and security assistance play mutually supportive, complementary roles in advancing U.S. foreign policy interests. However, the considerable difference in the terms at which these kinds of assistance are offered is inconsistent with their complementarity of purpose. The Commission noted that for the 21 countries which received substantial amounts of both military and economic assistance in FY 1982, the effective interest rate (including other loans and grants) was about 9 percent for military aid and about 1 percent for economic aid. By adding to a country's debt service burden, Treasury-rate FMS can sometimes be at cross purposes with, and can undercut, objectives we pursue through our concessional economic aid programs --particularly, the goal of promoting political and economic stability and development.

We remain confident that countries that have outstanding FMS loans, or for whom we are proposing FMS, will continue to meet their repayment obligation. We cannot ignore the fact, however, that many of these countries are facing severe economic hardships. We hope, by being able to provide concessional FMS financing, to ease future debt service burdens while at the same time meaningfully contributing to our mutual security.

I would like to point out that our request for concessional FMS funding for selected countries is not new in our FY 1985 request; we made similar proposals in FY 1982 and FY 1983, for concessional programs totalling $581 million and $785 million respectively. These requests were not enacted.

CONCESSIONAL FMS

Senator Inouye: Which countries that receive FMS credits at Treasury rates in FY 1984 are to receive FMS credits at concessional rates in FY 1985?

Secretary Schneider: Of the 16 countries proposed for concessional FMS financing for FY 1985, 15 received FMS financing at Treasury rates in FY 1984. These include:

Indonesia, Philippines, Jordan, Morocco, Pakistan, Tunisia, Turkey, Botswana, Cameroon, Colombia, Dominican Republic, Ecuador, El Salvador, Panama, and Peru. Guatemala is the only country that is proposed for FY 1985 FMS concessional financing that did not receive FMS financing in FY 1984.

Senator Inouye: Is there any danger that these countries will be unable to meet their payments on prior-year FMS loans when due?

Secretary Schneider: There is, of course, always a danger that unforeseen circumstances will preclude the prompt repayment of any debt. However, one of the primary criteria that we used in determining which countries should receive concessional FMS was the ability of the prospective country to repay its FMS loans. In recent years one important reason for the serious economic straits in which these countries have found themselves has been poor export markets for their products. World-wide, however, the prospects for economic recovery are improving. The ability of a country to repay loans also depends on economic adjustments that they are capable of making. The U.S. encourages countries in economic distress to work with international institutions such as the IMF to come to grips with their problems. If these countries make the necessary adjustments and if OECD recovery continues and spreads, we expect that the debt burden of these countries will be manageable.

U.S. ASSISTANCE TO TUNISIA

Senator Inouye: You have referred to the precarious economic condition of Turkey, Sudan, Morocco, and Tunisia. Each of these countries, with the exception of Tunisia, is to receive substantial ESF funding in FY 1985. Why is Tunisia the exception?

Secretary Schneider: Tunisia is a moderate Arab nation with a long history of friendship with the U.S., and we want to do all we can to assist Tunisia. The level of FY 1985 ESF requested, $3 million, is designed to maintain the program for Tunisian students studying engineering, economics and the sciences in the U.S. In addition, we are proposing $5 million in PL 480 Title I food assistance. In doing so, we have reversed earlier expectations that our economic assistance to Tunisia would end by FY 84. This year, in addition to the $10 million PL 480 proposed originally, we added $5 million in the wake of the January unrest.

Senator Inouye: I believe that Tunisia has been very supportive of U.S. policies, it borders on Libya, and food riots in the past year are indicative of economic unrest. It would seem to me that Tunisia is worthy of greater assistance. Do you disagree?

Secretary Schneider: I fully share the concern you have expressed for Tunisia's economic difficulties, and, as I have previously indicated, Tunisia is an old friend whom we wish to assist to the extent our resources allow. We provided $10 million in PL 480 Title I food assistance in FY 82 and FY 83 and initially $10 million in FY 84. After the bread riots in early January, we revised our initial FY 84 PL 480 Title I allocation from $10 million to $15 million. We made this decision to indicate both our continuing interest in Tunisia and to help that country in a time of economic difficulty and prolonged drought in the interior. Our economic assistance is coupled with a continuing security assistance program that is designed to enable Tunisia to modernize its military structure and to develop a deterrent to any external threat from Libya. For FY-85, we are proposing $15 million MAP, $25 million FMS at concessional rates, and $25 million at market rates.

Senator Inouye: Mr. Secretary, I am intrigued by your references to the Regional Military Training Center or RMTC. What do you mean by the phrase "more permanent facilities."

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

Senator Inouye: Is the terrain in the ares suited to permanent facilities? I have been told it is quite marshy.

Answer: (Clerk's Note—The answer is classified, and therefore has been deleted.)

REGIONAL MILITARY TRAINING CENTER
GUATEMALA

Senator Inouye: What other forces are likely to make use of these facilities? Do you propose to train Guatemalan forces in the RMTC?

Secretary Schneider: The RMTC is a Honduran facility open to training of friendly military forces in the region. Honduras must, of course, agree to all training conducted there. To the extent that U.S. trainers or training funds are involved, the U.S. must, of course, also agree to any particular training provided. Only Salvadoran and Honduran troops have received training at the facility. There are no plans at this time to train Guatemalan military forces there.

Senator Inouye: General Gorman has said that Guatemalan troops will participate with U.S. forces in exercises in Honduras this summer. That is a training exercise, is it not?

Secretary Schneider: We understand that other regional forces may be invited by Honduras to participate in Granadero I. However, no decision as to which nations will be asked to participate has been reached on this issue, nor have any other nations indicated that they would accept if invited.

The purpose of Granadero I will be to demonstrate the ability to conduct multi-national regional military operations and to standardize operational procedures among the participating nations. Although all exercises have a training component, Granadero I is operational in nature.

Senator Inouye: Are Guatemalan military personnel participating in training activities in the RMTC at the present time? Have they participated in the past?

Secretary Schneider: Guatemalan military personnel are not currently participating, either as instructors or trainees, at the RMTC. Two Guatemalans previously participated as instructors, at the invitation of the Honduran army, for a 90-day period.

Senator Inouye: Is Guatemala presently eligible for military assistance under U.S. law?

Secretary Schneider: Guatemala is ineligible for any FY 1984 military assistance funds under the terms of the FY 1984 continuing resolution. However, Guatemala is not precluded from making FMS cash purchases of training, services, or materiel or from making purchases of items on the U.S. Munitions List from private U.S. firms. We rigorously review all FMS cash and Munitions List license requests for Guatemala on a case-by-case basis. During such reviews, we give great weight to Guatemala's human rights performance and its progress in returning to democracy.

U.S. MILITARY AID AND HONDURAN DEMOCRATIZATION

Senator Inouye: Mr. Secretary, recently the president of the ruling Liberal Party in Honduras said, "I don't think Nicaragua will launch a conventional attack against us. We are worrying about something that is not likely to happen when we need to concentrate on the democratization amd development of our own society."

How does the program you have proposed contribute to the democratization and development of Honduras?

Secretary Schneider: A frequent criticism of U.S. policy toward Honduras is the assertion that our military cooperation weakens democracy by militarizing the country. A careful look at what has happened politically -- and militarily -- in Honduras over the past few years suggests the contrary conclusion: that the whole direction of events has been from military control toward a progressive civilian, democratic system.

When President Suazo was inaugurated in January 1982, there was a clear transfer of power from military to civilian hands -- after nearly 18 years of military governments. Cabinet ministries and agencies changed from military to civilian direction. Today, the Defense Ministry and the telecommunications agency are the only major government bodies still headed by military personnel. Further, it is clear that the civilian government, which can boast of a reputation for honesty and technical competence, has exercised clear and unquestioned authority in economic and internal political matters. The Honduras budget, under the Suazo government, gives higher priority to health, education and public works than to military expenditures. The government, fully supported by the armed forces, has initiated an extensive voter registration program to prepare for national and municipal elections in 1985.

The U.S. role is just as clear. The civilian/military relationship in Honduras is a product of that country's history and political dynamics; the level of our military assistance is not a significant factor. At each stage in the return to democratic rule the U.S. Government encouraged the restoration and specifically discouraged those elements which sought to maintain de facto military rule. U.S. military assistance and cooperation, defensive in nature, help a friendly country to consolidate its nascent democratic process and to develop economically by lessening erstwhile debilitating pressures from radical leftist forces in the region. Our military assistance has allowed Honduras to husband scarce resources for economic rather than military use.

Senator Inouye: When you say Honduras is "rightly concerned about the massive military buildup in neighboring Nicaragua," to whom do you refer? The military in Honduras?

Secretary Schneider: The perception of the Nicaraguan threat is not one exclusively of Honduran leaders, whether civilian or military. In a September 1983 poll, some 700 Honduran adults were asked what country, if any, was either a threat or a help to Honduras. Eighty percent of the respondents named Nicaragua as a military threat; in contrast, ninety-three percent named the United States as aiding Honduras.

There is little debate in Honduras that the country's external security situation has become increasingly precarious due to Nicaragua's military buildup and heightened destabilization efforts. Nicaraguan support for a putative Honduran leftist front, Cuban and Nicaraguan propaganda targeting of Honduras for "liberation," seizure of Nicaraguan-supplied armed and Sandinista-created subversive groups, terrorist attacks in Tegucigalpa, numerous Nicaraguan instigated armed incidents along the border, the introduction of guerrilla warfare supported by Nicaragua and Cuba, and Nicaraguan maneuvers to avoid a comprehensive approach toward the resolution of regional conflict have created apprehension about Sandinista designs and activities among a wide spectrum of the Honduran population.

Senator Inouye: A number of Honduran legislators have informed me of their concerns with the rapid military buildup in Honduras. They say this buildup has taken place without legislative concurrence.

Secretary Schneider: There has been no rapid military buildup in Honduras. Honduras is not trying to match Nicaragua's buildup. Instead, it has embarked upon a selective military modernization program to establish a minimal deterrent for self-defense. The Honduran government is concentrating on developing a force with sufficient firepower and mobility to meet an attack wherever it might occur and to perform an effective counterinsurgency role. The deterrent capacity of the Honduran Air Force, the traditional defensive mainstay, has been called into question by Soviet and Cuban efforts, including the training of Nicaraguan pilots. Honduran army units are undertrained, the total military force is one-fourth that of Nicaragua, and its inventory of transportation, communications, and air defense materiel is skimpy and aged.

Our military assistance has concentrated on training and basic equipment. No sophisticated weapons or systems have been transferred to Honduras. Moreover, that assistance remains modest when compared with the threat facing Honduras and the state of its defensive forces. Military expenditures in the Honduran government budget, subject to review and approval by the National Congress, have been straight-lined at $41.5 million for three years.

Senator Inouye: Will the proposed military assistance program be reviewed and approved by the legislative branch in Honduras, or is it the military alone which approves these commitments? If so, how does that support the development of democracy?

Secretary Schneider: The U.S. military assistance program in Honduras, entirely grant monies, does not require Honduran budgetary expenditures and is not automatically forwarded to the National Congress for approval. The program is reviewed by Honduras' National Security Council, in which civilian ministers in addition to Armed Forces representatives participate. The National Congress is empowered to debate and act upon questions regarding foreign military assistance, as was illustrated when Regional Military Training Center was established in June 1983.

PORT SALINES AIRPORT IN GRENADA

Senator Inouye: Mr. Secretary, what can you tell the subcommittee about plans to complete the airport at Point Salines in Grenada?

Secretary Schneider: We plan to help the Grenadian Government, along with the Canadians, the EEC, and the U.K., open the Point Salines Airport to international air traffic by October 1984 and complete the airport in 1985.

Senator Inouye: I believe this is the airport which President Reagan cited as evidence of Cuban/Soviet intent to make Grenada an island fortress. Am I correct?

Secretary Schneider: The Point Salines Airport is the facility which President Reagan mentioned was being planned for Cuban-Soviet military use by the former Bishop regime.

Senator Inouye: I believe the FAA has dispatched a team to Grenada to begin planning for the airport's completion. Is that correct?

Secretary Schneider: The FAA has not dispatched a team for this purpose. AID engineering personnel, contractor airport specialists, and Canadian engineers have reviewed the Point Salines facility to date. AID has worked closely with the International Commercial Airline Organization (ICAO) and with the Eastern Caribbean Aviation Authority in carrying out plans to complete the airport and will continue to do so.

Senator Inouye: I believe it is correct, and I have been told that FAA officials found very few vestiges of intended military use. Can you give us a report on this matter?

Secretary Schneider: While it is true that little was found at the airport site that would confirm that it was planned for military use, the former Bishop government made no attempt to upgrade roads, hotels, and other elements of Grenada's infrastructure which would have been necessary to attract tourists, the reason for which Bishop claimed the airport was being built. The airport's military potential was confirmed in a 1981 public statement by the then Grenadian Minister of Mobilization. Bishop's close alignment to the Cuban, Soviet, and Nicaraguan governments, as well as the locations of a major military facility and warehouses containing arms and ammunition adjacent to the airport amply demonstrated his government's plans for the airport.

Senator Inouye: Will the U.S. have to pay British and Canadian contractors damages for loss of equipment and termination of their contracts, or will we pay them to complete the airport?

Secretary Schneider: The U.S. will pay the damages to the Government of Grenada, which actually holds legal title to the equipment at the airport that was damaged or destroyed. However, these damages are a relatively small percentage of the total amount that we will contribute toward the airport's completion. A large portion of the U.S. contribution will go to U.S. suppliers and construction contractors whose products and services will be necessary to complete the airport.

CORRUPTION IN ZAIRE

Senator Inouye: The CBS Sunday evening program "60 Minutes" presented a rather unpleasant and distressing picture of corruption in Zaire. President Mobutu was said to have amassed a personal fortune in excess of $5 billion.

Is there any substance to this allegation?

Secretary Schneider: This charge has come up many times; there is no way to substantiate it. However, considering that Zaire's exports are only about $1.5 billion per year, a net worth of over $5 billion seems highly unlikely.

As to corruption in Zaire, important reforms undertaken in recent months in response to World Bank and IMF recommendations have greatly reduced theft of government assets and have improved significantly the government's ability to monitor the use of its funds. Rather than dwell on the mistakes of the past, I think we need to focus on the current situation. Here it is clear that over the past 18 months, Zaire has undertaken one of the most far reaching economic reform programs on the continent.

Senator Inouye: In view of the persistent charges of corruption, is it wise to provide Zaire grant assistance?

Secretary Schneider: U.S. assistance programs are very carefully monitored to ensure that funds are used for the intended purposes. Our aid is targeted on the rural poor, principally through agricultural development and public health projects. No cash grants are given. AID auditors have found this control to be effective. We quickly cut off PL - 480 rice assistance a few years ago when we learned that it was not reaching intended recipients.

ZAIRE MAP PROGRAM

Senator Inouye: The Congressional Presentation Document states that the MAP program is concentrated on assistance for Zaire's fleet of C-130s. When I asked you about this so-called fleet last year, only one C-130 was operational.

What is the situation now?

Secretary Schneider: Progress is being made. In addition to the one C-130 now in use, we expect that two more will be operational in the near future. If the negotiations between Zaire and the Italian company Siai-Marchetti (which is currently holding Zairian C-130 aircraft and engines) are successful, then an additional two C-130s could be made serviceable.

Senator Inouye: Has Zaire paid the $10 million it owed to an Italian firm for C-130 overhauls?

Secretary Schneider: As a sign that progress is being made in these negotiations, Siai-Marchetti earlier this year released some engines and equipment it was holding. Discussions between Zaire and Siai-Marchetti have continued since then. However, to the best of our knowledge, the Government of Zaire has not yet paid its debt to Siai-Marchetti.

Senator Inouye: Has U.S. assistance provided the funds to pay this Italian firm? Will they be used for such purposes in FY 1985?

Secretary Schneider: No U.S. assistance will be used to pay Siai-Marchetti. Our MAP funds are used for materials procured in the U.S., not to pay off foreign debts.

IMF "SHADOW PROGRAM"

Senator Inouye: The Congressional Presentation makes use of a term which is unfamiliar to me. What is an IMF shadow program? Does such a program have any legal or binding status? Does it have any official recognition on the part of the IMF?

Secretary Schneider: "Shadow Program" is a term used to describe an informal arrangement between the IMF and a member country under which the country agrees to meet certain policy conditions established in consultation with the IMF. Such arrangements are non-binding and do not have formal IMF recognition. Shadow programs are used where it is deemed desirable for a country to demonstrate its seriousness of intent before IMF resources are committed or where agreement on a formal program is not possible.

ZAIRE AND THE BROOKE AMENDMENT

Senator Inouye: Is Zaire presently under Brooke Amendment sanctions?

Secretary Schneider: Zaire has been under Brooke Amendment sanctions since October. We have begun negotiations on an agreement which will reschedule all outstanding official bilateral debts. When this agreement is signed, Zaire will be current on its obligations and the Brooke Amendment will no longer apply.

MILITARY RULE IN AFRICA

Senator Inouye: What is the incidence of military rule in Africa today?

Secretary Schneider: Although still substantial, the number of military governments in Africa has decreased over the recent past. There are approximately 15 military governments in existence today, and a number of other civilian governments which were former military governments. We believe the Africans prefer to move away from military rule primarily due to the lack of success military governments have had in addressing basic social and economic problems, an identification with democratic values, the negative perceptions of military governments in the West, and the concurrent need by African governments to be acceptable to the West and the international community in general.

Senator Inouye: Can you site a case in Africa where military rule has yielded control of government to civilian authorities?

Secretary Schneider: There are no recent examples of military governments turning over control to civilian authorities in Africa. The January military take-over in Nigeria eclipsed the only recent example that we could have cited. However, there are a number of examples of military governments changing to civilian governments over the years: Egypt, Mali, Niger, Somalia, Sudan, and Zaire. Liberia plans to adopt civilian rule through an election process in 1985.

CIVIC ACTION PROGRAM

Senator Inouye: Do you believe that the proposed Civic Action Program for Africa will foster democracy?

Secretary Schneider: The proposed Civic Action Program for Africa for 1985 is not designed or intended to be a "program for democratic action." It is rather, a program that will assist the African military in selected countries develop basic skills in engineering, medicine, communications, water conservation, etc. The underlying concept is to enable African governments to utilize their military establishments for national development purposes without impinging on private sector development efforts. The projects that the military would undertake as part of a civic action program would be projects that are directly related to military training and construction activities but that would also have an immediate civilian use (road construction, well drilling, establishing medical clinics with physicians' assistants and medical technicians, etc.).

Senator Inouye: If the United States provides assistance for education, health, and sanitation through the military, will that not undermine the prestige and authority of civilian leadership?

Secretary Schneider: The USG does not intend to provide assistance for health, education, and sanitation for the civilian population through the military Civic Action Program. the program is designed for the military to learn how to plan and build these capabilities and facilities for the military themselves. It is possible and in fact desirable that there be some civilian spin off or use of such facilities that the military might build. There is to be no usurpation of the civilian (authoritative) role in the projects or programs in the civic action initiative.

Senator Inouye: How much do you propose in funding for the Civic Action Program for Africa?

Secretary Schneider: The Civic Action Program request is for $5 million in FY 85. Included is a coastal surveillance program. We intend to provide training and some coastal surveillance equipment under this program in 1985. As an enhanced capability in coastal surveillance will assist the participating African nations in protecting their coasts, harbors, and fishing grounds, and therefore provide an economic benefit to the civilian sector, the coastal surveillance program was put under the civic action initiative. We intend to use the entire $5 million for the program in the first year.

Senator Inouye: How will this funding be allocated?

Secretary Schneider: Once the Congress has appropriated security assistance (MAP) funds for 1985, the State Department in cooperation with Defense will allocate the resources on a world wide basis. We anticipate that the civic action program will be funded at the $5 million requested level. By the time the funds are actually allocated, we will have two to three country programs outlined. We are currently studying possible projects in several countries. Once we have determined which country can best use the small amount that we will be able to make available, we will select the two or three most promising and beneficial projects and fund them as we would normal bilateral MAP programs.

QUESTIONS SUBMITTED BY SENATOR LEAHY

Senator Leahy: How many combatants in the guerrilla forces?

General Gast: Current estimates range from 9,000 to 12,000 in the guerrilla forces.

Senator Leahy: What percentage of the Salvadoran Army is assigned to combat?

General Gast: For the past four months the Salvadoran Army has maintained approximately 70% of their forces in the field, on combat operations.

Senator Leahy: How many of the troops trained by the United States in 1981 remain on active duty?

General Gast: Less than 15% remain on active duty, because soldiers serve for two years only.

Senator Leahy: Did the U.S. train Roberto D'Abuisson? Can you find out, if we did, where and when?

General Gast: Yes. D'Abuisson attended two U.S. training courses - the first was a course at the Inter American Police Academy in 1966 in Washington. The second was a communications course at U.S. Army School of the Americas (USARSA) Panama, in 1972.

Senator Leahy: How many M16's are currently on inventory in El Salvador?

General Gast: Since 1980, 32,925 M16 rifles have been sold to El Salvador. Of that number 2,163 have been lost or destroyed. The balance of 30,762 remain in the Salvadoran inventory.

Senator Leahy: How many crew served weapons are on inventory in El Salvador? How many have we sent them since 1980; how many are currently on inventory?

General Gast: The United States has provided 1,643 crew served weapons to the El Salvadoran Armed Forces since 1 October 1980. These weapons are currently on inventory with the exception of 126 crew served weapons captured by the enemy during this period.

SUBCOMMITTEE RECESS

Senator LEAHY. The subcommittee will stand in recess until 2 p.m. tomorrow, when we will hear testimony from the international narcotics control, refugee assistance, and anti-terrorism programs.

Thank you both.

Mr. SCHNEIDER. Thank you, Senator.

[Whereupon, at 12:05 p.m,, Tuesday, March 6, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, March 7, 1984.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, MARCH 7, 1984

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, D.C.

The subcommittee met at 2 p.m. in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Hatfield, and DeConcini.

DEPARTMENT OF STATE

Bureau for Refugee Programs

STATEMENT OF JAMES N. PURCELL, JR., DIRECTOR, BUREAU FOR REFUGEE PROGRAMS

INTRODUCTION OF WITNESSES

Senator Kasten. The subcommittee will come to order.

Our schedule includes, first, Jim Purcell in support of the budget request for Migration and Refugee Assistance. Then we will hear from Ambassador Sayre who will present testimony in support of the administration's anti-terrorism program. Finally, we will hear from Dominick DiCarlo, who will present testimony in support of the International Narcotics Control budget.

Because of the busy schedule, I am going to have to ask that all the witnesses be as brief as possible so that we can spend as much time as possible on questions. I want to make sure that everyone is aware that your entire written statements will appear in the record.

Without further delay, I would like to begin with Jim Purcell on the Migration and Refugee Assistance request. Mr. Purcell.

Migration and Refugee Assistance

GENERAL STATEMENT

Mr. Purcell. Thank you, Mr. Chairman.

I shall put my statement in the record and summarize a few remarks.

Refugee crises around the world continue. We estimate presently that there are about 7.5 million refugees, and probably that many more displaced persons. We are continuing our program to assist and maintain and care for these refugees, basically, through the policy changes I described to you last year.

We try first to provide adequate care and asylum for refugees when they first arrive in asylum countries, and then to work toward solutions within the region involving voluntary repatriation or settlement within the region. Only as a last resort do we go to third country resettlement.

Our policies over the last few years have made a major shift. Three years ago, about two-thirds of our budget, which was then at the $500 million range, was devoted to admissions which was the highest priority that we used, admissions to the United States, and only one-third to relief assistance overseas. We have today reversed those percentages, providing substantially more funds to our overseas efforts, to bolster asylum countries, and to contribute to solutions overseas.

1984 SUPPLEMENTAL BUDGET

First for 1984, we are proposing a budget supplemental of $14,650,000. Our request for 1984 was $344.5 million, and if anything the requirements on which that budget was based have increased. The continuing resolution that was enacted this past year provided $323 million to meet those requirements.

When the Congress enacted the State Department authorization bill, an additional $15 million was earmarked for the displaced persons programs in El Salvador and Lebanon. In order to meet these requirements, the administration has decided to propose this supplemental request, which will meet needs that were not anticipated at that time and which cannot be met within the present budget. These are critical programs in Thailand, Africa, Lebanon, and Central America.

1985 BUDGET REQUEST

For 1985, we are proposing a budget of $341,450,000, which is $3.8 million above our adjusted 1984 request. This will maintain our policy of attempting to work within the international community, to foster refugee solutions overseas, and will permit the admission to the United States of 72,000 refugees, the same level that we have in 1984.

REFUGEE ADMISSIONS TO THE UNITED STATES

Our budget is divided into four sections. First, refugee admissions to the United States, which represents 34 percent of our request. We are proposing to admit 72,000 refugees to the United States—50,000 from Indochina, 12,000 from the Soviet Union and Eastern Europe, 6,000 from the Near East and South Asia, 1,000 from the Western Hemisphere, and 3,000 from Africa.

REFUGEE ASSISTANCE OVERSEAS

Our second category is refugee assistance overseas. We are proposing $196.3 million. This represents 57 percent of our total request, also a decrease of $5.7 million from our 1984 adjusted request for these same programs. For the most part, this funding will be made available to international organizations where we will attempt to further broaden the base of international participation in these programs.

ASSISTANCE TO SOVIET JEWS RETURNING TO ISRAEL

Our third category covers assistance to Soviet Jews returning to Israel, and we are proposing $12.5 million, the same as in 1984. We also in this category provide $7 million to the International Committee of the Red Cross (ICRC) and the Intergovernmental Committee for Migration.

BUREAU ADMINISTRATIVE EXPENSES

Our final category, the administrative expenses for running our bureau, is budgeted at $8.4 million. This is about $800,000 greater than 1984. Of this increase, $436,000 is required for seven urgently needed new positions in our bureau to carry out new and expanding functions. The remainder is required for price increases.

I will stop with this summary, Mr. Chairman, and entertain your questions.

[The prepared statement of Mr. Purcell follows:]

PREPARED STATEMENT OF JAMES N. PURCELL, JR.
DIRECTOR
BUREAU FOR REFUGEE PROGRAMS

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to present the Department of State's Migration and Refugee Assistance Appropriation request for FY 1985 and for supplemental funding for FY 1984. Accompanying me are Robert L. Funseth, Senior Deputy Assistant Secretary of the Bureau, and Rozanne Oliver, Director of the Office of Program Budget.

Mr. Chairman, although refugee crises have appeared less frequently in the headlines over the last two years, problems of substantial proportions remain on virtually every continent. Estimates of the numbers of refugees world-wide are about 7 million persons. Most refugees are in developing countries that cannot adequately provide for their needs. Many host countries are of interest to the United States for strategic and other foreign policy reasons, and need to be supported in their generous efforts to help those persons who have fled from war and persecution. The United States also must continue to respond to needs to resettle refugees in this country when voluntary repatriation or settlement in the region on a long-term or permanent basis is not possible.

The Department is requesting a supplemental appropriation for FY 1984 of $14.65 million in addition to the Continuing Resolution level of $323 million. Current estimates of worldwide program requirements are now $337.65 million. New requirements for refugee relief overseas, which were not anticipated in the FY 1984 request, cannot be absorbed within the present budget. These requirements occur in regions critical to foreign policy interests of the United States--Thailand, Africa, Lebanon, and Central America--and are necessary to maintain the U.S. commitment to the governments hosting refugees as well as meeting humanitarian concern for refugees.

Unanticipated program needs in Central America represent $8 million of the supplemental request. Of the total, $7 million will support assistance programs to displaced persons in El Salvador--a concern that was expressed by the Congress in the Department of State Authorization Act. The remaining $1 million will augment the U.S. contribution to the United Nations High Commissioner for Refugees (UNHCR) to support its growing programs in Central America at our 30 percent target.

In Indochina, $2 million is needed to maintain the level of U.S. support for the program which provides relief and protection to the 230,000 Khmer refugees on the volatile Thai-Kampuchean border.

The African program of the UNHCR has increased $20 million over the original estimate because of initially high costs to provide long-term solutions to refugee needs--a program emphasis the Administration fully supports. To fund the U.S. contribution at a 30 percent share, an increase of $2 million is required. Achieving a U.S. share at this level is highly desirable, given the U.S. decision to participate in the upcoming International Conference for Assistance to Refugees in Africa, the so-called ICARA II.

New requirements as a result of the resurgence of civil war in Lebanon for the relief of refugees and displaced persons will cost an estimated $5 million. To fully meet the growing needs in that increasingly fragmented country, the Bureau requests $2.65 million, with the remaining $2.35 million to be absorbed within current funds.

Our budget request for FY 1985 is $341.45 million. This figure is an increase of only $3.8 million over the adjusted FY 1984 request. This increase is needed to maintain our refugee admissions program at the current level of 72,000 while continuing to respond to projected assistance needs at about the same percentage levels as in FY 1984.

The first major area in our budget is refugee admissions, with a request of about $117.3 million. This figure is about 34 percent of our total request and an increase of $11.3 million from the FY 1984 adjusted request. The 72,000 projected admissions, the same as the FY 1984 consultations level, are divided among 50,000 East Asians (mostly Indochinese), 12,000 from the Soviet Union and Eastern Europe, 6,000 from the Near East and South Asia, 1,000 from the Western Hemisphere and 3,000 from Africa. In a departure from our practice in the past several years, we are not proposing a reduction in refugees admitted from East Asia for the coming fiscal year. Although our policy continues to be to manage down admissions, we are responding to higher than anticipated camp populations due to lower U.S. admissions last year caused by processing difficulties. This level of admissions for FY 1985 is necessary to assure our ASEAN allies who offer first asylum to refugees that we have not lessened our commitment to help resolve their problem and will, moreover, represent substantial progress toward achieving such a resolution.

The admissions budget funds several program activities. First, it funds the voluntary agencies that assist in processing refugees for admissions to the U.S. Second, it provides a loan program for transportation expenses for resettling refugees to the U.S. Third, the reception and placement program funds voluntary agencies for services provided to the refugees during their first 90 days in the U.S. Finally, the admission budget pays for a program of English language and cultural orientation training for refugees to be admitted to the U.S. The increase from the FY 1984 adjusted request to FY 1985 is $11.3 million, which is due in part to the effects of overseas inflation and in part due to lower than usual costs in FY 1984 through elimination of a marginal reserve fund for transportation.

Funding requested for assistance to refugees overseas is $196.3 million, about 57 percent of our total request and a decrease of $5.7 million from the FY 1984 adjusted request. Four years ago, the composition of our request was about two-thirds for admissions and one-third for assistance. We have now reversed those percentages by addressing refugee needs through assistance in the countries of first asylum and through pursuit of repatriation, local settlement, or resettlement in third countries other than the U.S. The assistance programs consist primarily of contributions to international organizations providing relief in various geographic areas. This multilateral approach is consistent with our desire to broaden international support for refugee assistance and protection.

The request level of $33.8 million for assistance to Indochinese refugees in Southeast Asia is essentially unchanged from actual spending in FY 1983 and the adjusted request level of FY 1984. This funding supports the efforts of the UNHCR, UNBRO, and other agencies to address the needs of about 195,000 refugees in UNHCR camps and the 230,000 Kampuchean refugees who remain in a precarious situation on the Thai-Kampuchean border.

African relief assistance is reduced by $300,000 from our FY 1984 adjusted request to $54.5 million in FY 1985. This reflects decreased needs for short-term care and maintenance in some areas, with a simultaneous shift in emphasis towards encouraging self-reliance and local settlement. The continuation of this trend over time should yield substantial benefits for refugee well-being and host country economic and political stability, while reducing the total cost and U.S. share of these programs.

Refugees in the Near East and South Asia require $93 million. In support of the President's peace initiatives in the Near East, our request includes $67 million--the same as the FY 1984 adjusted request--for the support of Palestine refugees through the crucial work of the United Nations Relief and Works Agency for Palestine Refugees. We also intend to continue funding of the UNHCR, the ICRC, and some voluntary agencies for almost 2.9 million Afghan refugees in Pakistan at $26 million, $3 million less than the FY 1984 adjusted request. The request does not include provision for emergency needs in Lebanon because of the uncertainty about future needs.

Consistent with the Administration's heightened concerns in Central America and the region's growing refugee needs, we propose to fund programs assisting Latin American refugees at $15 million, a $2 million increase over the FY 1984 request for refugee activities. Most of this amount will go towards UNHCR programs, with the rest to be contributed to the ICRC and voluntary agencies. We are not requesting a continuation of the displaced persons activities under the Migration and Refugee Assistance Appropriation, such as the amount included in FY 1984 for El Salvador under the Migration and Refugee Assistance Appropriation, since the Agency for International Development will fund these activities.

Also included in our request is $19.5 million for "Other Activities", a decrease of $2.55 from the FY 1984 adjusted request. The decrease results from the elimination of a separate contribution to the ICRC for political detainees, since the ICRC no longer will make a separate appeal but will cover those activities in the regional programs for which we are requesting funding. In addition, we will not make a contribution for the UNHCR programs in Western Europe.

The program of assistance to refugees settling in

Israel is requested at a level of $12.5 million, the same funding requested for the past two years. This program covers not only Soviet and East European refugees immigrating to Israel, but also refugees from other areas.

In the category of "Other Activities" we are requesting an additional $7 million for activities including the U.S. contribution of $2 million to the "ordinary program", or administrative budget, of the International Committee of the Red Cross (ICRC). The Intergovernmental Committee for Migration is funded at $3 million for its assessed administrative budget, and about $2 million for the voluntary programs, a $200,000 increase reflecting inflationary costs over the FY 1984 adjusted request.

Finally, we request about $8.4 million for administrative expenses, an increase of $805,000 over the FY 1984 request. Of this increase, $436,000 is attributable to a request for seven new positions in addition to the 97 funded in FY 1984. It has been several years since this Bureau has sought new positions. These positions will strengthen our monitoring and administration of key refugee programs, including Orderly Departure Admissions from Vietnam, the domestic resettlement and placement program, and assistance programs in Africa and Southeast Asia. As we continue our efforts to reduce funding of government programs to the minimum possible, it is incumbent upon us to assure that those limited resources are used in the most effective manner possible. These positions will allow us to provide more thorough oversight of the use of refugee funds. The balance of $369,000 is needed to cover price increases.

CEILING FOR SOUTHEAST ASIA

Senator KASTEN. Mr. Purcell, thank you very much.

Senator Hatfield.

Senator HATFIELD. Mr. Chairman, thank you very much for the courtesy of permitting me to ask a few questions here, and then get on to another meeting.

First of all, I would like to express my deep appreciation to Mr. Purcell, Mr. Funseth, and Mr. Dewey, and the rest of the Refugee Office staff for their excellent briefing and material that they provided to Senator Eagleton and myself during our recent visit to some of the refugee programs, particularly in Asia.

Mr. Purcell, as you know, last year I offered an amendment to the Senate bill to add $25 million for the refugee and migration program, and in the process of conference with the House, it was dropped. Do you anticipate a shortfall in the account for the current year?

Mr. PURCELL. No, sir, I do not anticipate a shortfall. If anything, I think we will be stretching to stay within those limits, which we obviously will.

Senator HATFIELD. The main reason that I offered that amendment was to provide for processing up to the full ceiling, as an example, the 50,000 quota or figure from Asia. Could you comment on whether you will process the full 50,000 this year out of Southeast Asia?

Mr. PURCELL. Yes, sir. As you know, in 1983, we were operating within a ceiling of 60,000 for Southeast Asia, and we were able to admit only 39,000. For the most part, as you will recall, that resulted from the processing debate that we had going with the Immigration and Naturalization Service (INS), and through your intervention at a high level, we were able to get the administration to focus on that.

We spent most of last year working on a new processing system, which has now been put into effect. Whereas last year we were seeing about 60 to 70 percent approval rates by INS, under the new system, the approval rates have jumped up to 93 percent.

With regard to this year, the 50,000 ceiling, I see absolutely no problem in reaching that ceiling. As a matter of fact, we have a monthly processing figure, and up to this point we are about at 98 percent for the first 4 months of the year of that plan.

We also have had some rather dramatic breakthroughs in the orderly departure program out of Vietnam. As you know, this program was started in 1979, but because of obstacles imposed by the Vietnamese, it has been unable really to take off. We see that as an alternative to clandestine departure where too many people are being killed trying to get out of Vietnam.

We are trying to impose an orderly and safe departure route. Through our extended discussions with the Vietnamese under the auspices of the U.N. High Commissioner for Refugees (UNHCR), we have seen some rather dramatic breakthroughs there. This past month, we reached 1,000, which is the highest level ever.

AMERASIAN CHILDREN

In our discussions with the Vietnamese, discussions of Amerasian children, of which they estimate there are still up to 8,000-plus dependents in Vietnam. We believe that we have an obligation to them, and we have chosen the orderly departure program as the means for their exodus, plus we are continuing to work with those close allies who are remaining in reeducation camps in Vietnam.

Our projections would show us getting right up to the 50,000 ceiling. We anticipate no shortfall at all from Southeast Asia this year.

Senator HATFIELD. Mr. Purcell, the 50,000 figure that you use, though, is that inclusive of the 28,000 carryover of INS-approved numbers because of the lack of the same efficient operation in 1982 and 1983?

Mr. PURCELL. We didn't impose the new processing system until August 15 of last year, and under that system, we had a surge in INS approvals. Those people who are approved, as you know, go to refugee processing centers in Manila and in Indonesia. They undergo training there for about 6 months.

So the 28,000 were in refugee processing centers when this new fiscal year began. They will be charged against the 50,000. They generally will stay in a refugee processing center anywhere from 6 to 7 months, undergoing English language training, health screening, and some prevocational skills training.

SOUTHEAST ASIA PROCESSING SCHEDULE AND CARRYOVER

Senator HATFIELD. With that carryover of 28,000 being incorporated into the 50,000 figure, when I offered the amendment, I was trying to get the amendment to apply to an actual fiscal year processing activity. What do you anticipate will be the actual number that you will process under the current fiscal year, and what will be the carryover into 1985 and 1986?

Mr. PURCELL. We anticipate that INS will review and approve upwards of 60,000 in 1984. We are going to be looking at a carryover in 1984 of somewhere in the range of 25,000, without question, at this point. But it is part of that processing system in which, unless a refugee is approved by INS by April 1, it is unlikely that they will enter this fiscal year.

So we have, with INS, established an orderly processing system where we anticipate about 60,000 will be reviewed and approved.

Senator HATFIELD. Then you are really raising your actual processing rate from 22,000 up to 23,000?

Mr. PURCELL. That is right. We have increased processing. Last year, we had 39,000, and whereas this year we are going to admit 50,000, but we will process more than that. We are trying to gear toward a solution of the crisis nature of that program. At this point, that rate of processing, given the delays that will be required because of English training, et cetera, we think is about right.

Senator HATFIELD. You will then actually approve some 60,000 in fiscal year 1984?

Mr. PURCELL. That is right.

Senator HATFIELD. And, of course, the carryover from 1983 means that there will be a major portion of those carried over to 1984.

Mr. PURCELL. That is right.

PROJECTIONS FOR SOUTHEAST ASIA PROGRAM

Senator HATFIELD. I understand the administration may end the refugee program after fiscal year 1985. Is that true?

Mr. PURCELL. I don't think that it is fair to say that we will end the refugee program any time within the next few years. It is my hope that within fiscal years 1984–85, perhaps into 1986, we can make a substantial dent in the first asylum population that presently exists in Southeast Asia. At this point, we still have about 160,000 people in first asylum that are not in a training institution.

We have, through the expanded orderly departure program, been able to cut down on new arrivals. Thus far, for the first 4 months of the year, we are averaging fewer than 2,000 a month, and that is 30 percent lower than the comparable period last year.

If we can impose a safe means out, cut down on the new arrivals flow, and over the next 2 years begin to work off the population that presently exists, I would see a move from the crisis emergency program that has been operating since 1975 to a smaller refugee program.

I think there will continue to be a need for an outlet for refugees as long as the Communists continue to occupy Vietnam, Cambodia, and Laos, but I would hope that we can expand the orderly departure program so that it is not necessary for refugees to attempt leaky boat escapes, when most of them probably won't make it. We are attempting to make this into a more humane program that is not as dangerous and perilous as what presently exists. I see the refugee program as we know it now declining in 1986 and 1987, but remaining a small program, and a very substantial buildup in the orderly departure program.

PROBLEMS OF ORDERLY DEPARTURE PROGRAM

Senator HATFIELD. You are putting a lot of hope in that ODP. Let me ask you this, do we still have evidence that that is a revenue measure, as well as a migration policy?

Mr. PURCELL. It is clear that in order to get into ODP, it takes the Vietnamese a long time.

Senator HATFIELD. And money.

Mr. PURCELL. And money. There is probably a substantial amount of corruption and bribery necessary at the local level in order to get into it. We have, however, had numerous discussions with the Vietnamese through the UNHCR. In fact, the UNHCR's chief Asia person just returned from Hanoi. I think we are making progress in ODP.

We have put some rather stringent requirements for the U.S. side, and I think that finally the SRV is beginning to listen to us. But there undoubtedly, with the regime there, is an element of bribery and corruption that will continue. We will try to avoid it, but it is just not within our control.

CONSIDERATION OF RELOCATION OF INS DISTRICT HEADQUARTERS

Senator HATFIELD. I would not like to see our refugee program for the future predicated on a corrupt system, or that much emphasis given to the ODP, because I am not sure that it will ever change, or that we have the power or the leverage to make it change. Be that as it may.

At one time, the district headquarters was in Tokyo for Asia, and then it was moved, I believe, to Hong Kong. Now the focal point of that activity has shifted to Bangkok. Senator Eagleton and I made a recommendation that we shift the district office from Hong Kong to Bangkok. Ambassador Dean felt that made a lot of sense, as our Ambassador to Thailand. Do you have any response to our letter to you on that?

Mr. PURCELL. Yes; I can see substantial merit in having the district office located in Bangkok. As you know, this is the INS District Director, and that will really be under their province, even though we work closely with them. The bulk of refugee activity is in Thailand. The heart of the program is in Thailand. Having the INS District Director there, closer to the scene of action, I think can only improve the program. I think there is a lot of merit to it, and I understand the INS is giving consideration to that now.

EL SALVADOR AMNESTY PROGRAM

Senator HATFIELD. I am glad to get your endorsement.

Mr. Chairman, one last question.

With the continued evidence of the death squad activity in El Salvador, why do we have such a low approval rate for Salvadoran refugees?

Mr. PURCELL. Our whole strategy on Central America is based on carrying out the U.N. priorities for solution to refugee programs. Those solutions are in priority order: Voluntary repatriation; safe asylum within the region; if that is not possible, third country resettlement. To this point, safe asylum in the region is assured, and that is from Costa Rica to Mexico.

We are putting substantial amounts of money through the U.N. and ICRC in bolstering the asylum governments. At this point, they are providing safe, hospitable asylum. We are reluctant to take the steps to open up a massive refugee program from the region for obvious reasons. We have this past year participated in the amnesty program for Salvadorans, which was provided by the government there. We were one of the governments that participated in that program, and we expect to see up to 150,000 admitted.

At this point we are providing, through the Agency for International Development (AID) and ourselves, substantial amounts of money to deal with massive displaced persons programs in El Salvador. We are putting up to $10 million this year, as will AID.

COOPERATION OF MEXICO AS A HOST GOVERNMENT

Senator HATFIELD. But has the Mexican Government been cooperative in this program?

Mr. PURCELL. This is in El Salvador that we are presently working. In Mexico, we are basically dealing with about 40,000 Guatemalans.

Senator HATFIELD. But this whole program that you outlined is predicated upon the cooperation of those host countries.

Mr. PURCELL. That is correct.

The Mexican Government is providing asylum to 40,000 Guatemalans in 86 camps located there in the Chiapas Province, along the Guatemalan border. The UNHCR has been inspecting those camps. We would like to move those camps farther away from the border. Any time we have a refugee camp on the border, there is a significant security problem. The government has recently made some of their refugee officials available, and we expect to see some more cooperative attitude than we have had in the past. There have been problems with the Mexican Government in terms of their cooperation.

Senator HATFIELD. I will follow up with some written questions, Mr. Chairman. I don't want to hold you up, and you have indulged me well enough so far.

I do want to point out, it does seem to me that we have to come to grips with this El Salvador refugee question a little bit more realistically than relying upon the kind of a system that you have outlined, of asylum in countries that are already showing less than full enthusiasm in their willingness to cooperate, and where they have already received, perhaps, 40,000 Guatemalans.

I will follow up with some written questions, and I want to thank the chairman for his indulgence.

COMMITTEE SUPPORT FOR 1984 ADMISSIONS PROGRAM

Senator KASTEN. I would just like to point out that we were unsuccessful in maintaining the Senate position in this account during conference on the continuing resolution, but we did put special language in the report saying that "[s]hould refugee problems and admissions in 1984 result in a real need for additional funds beyond those now available, the managers will sympathetically consider such a request."

That still is the position of Senator Inouye and I, and I know of the full committee. So we are all in this together, and we are anxious for you to point out areas where you have problems, or where you have a shortfall, or where additional funds are, in fact, needed.

Senator DeConcini.

DISPLACED PERSONS IN EL SALVADOR

Senator DECONCINI. Mr. Chairman, thank you.

Mr. Chairman, I have to leave also, and I would like to submit questions to Under Secretary DiCarlo when he testifies. I am sorry that I can't stay to hear his testimony.

I do have one question, following up on Senator Hatfield's question, about El Salvador. What do we physically and financially do for refugees in El Salvador, do you know?

Mr. PURCELL. In terms of refugees in El Salvador, the UNHCR does not have a program for refugees per se in El Salvador. Hardly anybody is going to go to El Salvador for asylum. What we have in El Salvador are about 500,000 displaced persons, people who have been driven from their homes and are displaced within the country.

Senator DECONCINI. Do we do anything for them?

Mr. PURCELL. Yes, sir, we do. We have a number of programs for the DP's which are funded by my bureau and by AID.

Senator DECONCINI. Where does that funding go?

Mr. PURCELL. That funding goes basically to the International Committee of the Red Cross, which is responsible for about 90,000 of those refugees. We have problems with preventive and curative health, and logistics and food, which will be operated by private voluntary organizations.

Senator DECONCINI. A little bit of knowledge is always dangerous. Just having come back from El Salvador, I know the Red Cross runs two camps there, and the Catholic Church runs two, one behind the seminary run by the archbishop.

I could not get any answer from the administrator there as to whether or not they received—at least the one run by the archbishop—any assistance from the U.S. AID. I could not get a satisfactory answer from the embassy. If anything, I could draw a conclusion that they did not. They are in horrible condition.

They are separate from the government, and not well received by the government, because some of the displaced persons who are in that camp have been driven out by the government military troops going in after guerrillas. Women, children, and old men are there, and some of them are suspect by the government. The bishop will not let you in there without a letter, government or no government.

My request is that you look at that situation to see whether or not it is possible to channel some aid through the archbishop for those separate camps that are deplorable.

Mr. PURCELL. We have, Senator, through ICRC. They maintain and care for about 90,000 displaced persons, and we are funding them. The Government of El Salvador, through its agency, handles about 267,000.

Senator DECONCINI. In their own camps.

Mr. PURCELL. We can help them. The remainder that are helped by the church, we have made every effort to assist, but to this point the church has been reluctant to receive aid from the United States. We are attempting, and we have talked to the ICRC about whether or not it would be possible for them to perform a coordinating role for all of the displaced persons in El Salvador.

USE OF U.S. RELIGIOUS ORGANIZATIONS IN SAN SALVADOR

Senator DECONCINI. Are we prohibited from using any of the religious organizations in this country that might work with the archbishop in San Salvador?

Mr. PURCELL. No, sir. In fact, we would encourage some of the voluntary agencies with which we normally work to be involved, and we have been attempting to do that.

Senator DECONCINI. The archbishop made a plea to Congressman Aspin and me for the Catholic Relief Fund and some of the other PVO's to give more assistance if they wanted to. He stated that he would welcome such assistance.

Mr. PURCELL. I shall take that up again with them. But I understand the problem, and we have been attempting to try to form a relationship with the church and it has been very difficult up to this point.

Senator DECONCINI. Thank you.

Thank you, Mr. Chairman. These are the questions that I would like to have submitted to Mr. DiCarlo.

PROGRAMS FOR MISKITO INDIANS

Senator KASTEN. Fine.

It is my understanding that the United Nations High Commissioner for Refugees is developing a program in Honduras in order to permanently settle Miskito Indians who have fled from Nicaragua. It is also my understanding that the Intergovernmental Committee for Migration, which is also funded by your programs, is developing a program in Nicaragua, the purpose of which is to attract Miskito Indians, who have fled Nicaragua to Honduras, back into Nicaragua. In other words, you have two programs that you are funding doing exactly the opposite things.

In fact, are we funding both of these programs? I can't understand how the U.S. Government can support both of these goals. Which goals do we support?

Mr. PURCELL. These goals are compatible. There are presently about 16,000 Miskito Indians in Honduras. As you will recall, when they first came, they went into a camp at Macaron, which was a transit receiving camp. It was really inadequate for this size population. What the UNHCR has attempted to do is to develop new sites along Honduran rivers in the same area, which will permit some self-sufficiency for the Miskitos while they are in Honduras.

The attempt is not to allow them to stay there permanently, but while they are there to try to recreate the natural habitat of Miskitos so that they are not dependent totally upon international support. This is what we do in all refugee situations, we are now trying to take refugees off of total international dependency, and to put them in situations where there is sufficient land so that they can become reasonably self-sufficient. If this succeeds, by the end of 1984, the Miskito Indians should be agriculturally self-sufficient.

Senator KASTEN. But not permanent.

Mr. PURCELL. Not permanently. Our whole solution is, once the refugees are cared for and maintained in asylum countries, to begin to work upon solutions. The first and preferred solution is voluntary repatriation. The Government of Nicaragua, in January, offered an amnesty to any Miskito who would like to return. What ICM is doing is trying to facilitate the return of any Miskito who is willing to sign up to go back.

Senator DECONCINI. Have there been any?

Senator KASTEN. Is it true that there were seven that came back?

Mr. PURCELL. There are 20 so far who have signed up. Most of them are fearful of returning to Nicaragua. But to the degree that a Miskito freely chooses to return, to voluntarily repatriate, we will support that. We will not force them in any way.

I think these two goals are completely compatible, and I think that this is the way refugee programs should work. We should not be attempting to permanently resettle refugees in asylum countries. We should maintain them in a self-sufficient mode and, when it is possible, we should facilitate their return back to their country of origin.

Senator KASTEN. I appreciate the answer to the question. That is not the answer to the question that we received in Honduras. The people in Honduras are under the impression that, in fact, those Miskito Indians in encampments or refugee centers are likely to become permanent. It was their feeling and their perception, and that is why they spoke with us. So you might check that fact through.

Mr. PURCELL. I will.

[The information follows:]

MISKITO INDIAN SETTLEMENTS

The Nicaraguan Miskito refugees in Honduras are, in many ways, a special case. Given the fact that they are ethnically identical to Honduran Miskitos, and the fact that the province of Gracias a Dios—where the Honduran Indians live and the Nicaraguan refugees are located—is largely unpopulated, the Government of Honduras (GOH) decided that it could accept the construction of refugee settlements which would, as nearly as possible, replicate the refugees' original homes and, at the same time, permit the use of land and water resources which would allow the refugees to achieve total self-sufficiency. This is, in effect, de facto resettlement, with the exception that the refugees have not been granted Honduran citizenship. The Miskito refugees, thus, have the choice to remain in Honduras indefinitely or to return to their original homes in Nicaragua when conditions permit.

REFUGEE CAMPS NEAR DISPUTED BORDERS

Senator KASTEN. I want to follow up on Senator Hatfield's question, but on a broader basis.

It is my understanding, and it might even be in the law or the rules of the UNHCR or other refugee groups, that we don't have refugee camps near disputed borders. Is that correct?

Mr. PURCELL. That is correct.

Senator KASTEN. Where and how is that stated?

Mr. PURCELL. That is stated in UNCHR practices, policies, and manuals, that whenever possible we move refugee camps off of the border.

Senator KASTEN. It seems to me that in Central America, almost all of the refugee camps are in fact on or near disputed borders. First of all, starting in the north, why can't we move the Guatemalan group from that border?

Mr. PURCELL. We are.

REFUGEE CAMPS IN HONDURAS

Senator KASTEN. Is it because we have been unable to work with the Mexicans?

Mr. PURCELL. Basically, when refugees arrive, they house themselves on the border. It is easy. Let's take Honduras, where we have about 10,000 Salvadorans in a camp called Colomoncagua. We have about 600 Guatemalans on a border camp at El Tesoro. The UNHCR is now proposing to move those two border camps to a site further inland. This has been a very controversial move.

Most of the refugees have expressed some hesitation about leaving the border. But because of security reasons, and in order to provide land for self-sufficiency, the Government of Honduras and the UNHCR have decided that this move will occur. There are about 10,000 left at Mesa Grande, that move will occur subsequently, after we have completed the first one.

After these refugees arrive, and whenever we can work out with the government suitable land—that is an issue there, there is not a great deal of suitable land—when that arrangement is made, the UNHCR policy will be to move those camps away from the border, because they are magnets for guerrilla activities.

Senator KASTEN. That is Honduras.

Mr. PURCELL. That is Honduras.

REFUGEE CAMPS IN MEXICO

Senator KASTEN. When will the Mexican camps for Guatemalans be moved?

Mr. PURCELL. The UNHCR has been attempting to work with the Government of Mexico to move these camps further inland. To this point, the Government of Mexico has resisted. We have only recently been provided access to those camps. There are 86 camps located along this border. As I have mentioned, there have been some high level personnel shifts within the Government of Mexico, and we expect a more forthcoming attitude.

Our policy is clear. We would like to move those 86 camps away from the border. It requires the cooperation of the government, and we are hopeful that things will turn around. But up to this point, it has been impossible with the Government of Mexico, not with the UNHCR.

Senator KASTEN. Is it true that only two UNHCR officials have been allowed by Mexico to work at these camps?

Mr. PURCELL. The Government of Mexico will not allow private voluntary agencies to operate as operational partners as they do in most cases. The Government of Mexico does it itself. It has a refugee organization. The UN High Commissioner has been there, and a limited number of his staff have been able to have access and observe these. They are getting more people in.

We are stressing the point that it is necessary to have some PVO's. In fact, we ourselves, other than one person from the embassy who has been allowed a 2-day visit to observe these camps, have been denied access to them. We have made a high level demarche to the Government of Mexico, and we expect that policy to be reversed shortly.

There is a problem with the Government of Mexico that we are trying to work out, and all signs would indicate that we have a more cooperative group there now to deal with.

PROPOSAL BY UNIVERSITY OF WISCONSIN DISASTER MANAGEMENT CENTER

Senator KASTEN. I believe you have before you a proposal made by the Disaster Management Center at the University of Wisconsin for some work that they have been developing along with the Red Cross. Are you familiar with this proposal? What is the status of this proposal? Do you think that it is something that you might be considering favorably in the near future?

Mr. PURCELL. We have received the proposal. We have considered it. I have formulated a series of questions which I have posed both to the ICRC and to the University of Wisconsin. This will basically provide a correspondence training program for people who will subsequently be involved in disaster relief organizations. I have asked them to try to secure a broader international base since the customers for this school will be the UNHCR, ICM, UNDRO, and UNRWA. I would like them to develop a broader international base.

In fact, I had a meeting with them this week, and I have provided my observations as to how this program can be structured. It is something, if the need is there and they brought international support for it, that we would find worthy of participating in.

I have a program review committee in our bureau, headed by Mr. Funseth. We have considered the proposal, and it is under serious consideration if these questions can be answered.

SUBMITTED QUESTIONS

Senator KASTEN. There are additional questions that we have, and I know that there will be questions from other members of the subcommittee that we will submit to you in writing. I appreciate your testimony here, and we look forward to continuing to work with you. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

REFUGEES IN LEBANON

Senator Kasten: It is difficult to understand how you can possibly manage a refugee program in Lebanon for which you are requesting $5.0 million.

How do you plan to manage such a program given the situation at the present time?

Mr. Purcell: Continuing instability and violence in Lebanon does hinder efforts to plan for and manage programs for both refugees and displaced persons. In assistance programs for Lebanese who have been displaced from their homes by the conflict, and who still remain in Lebanon, the Bureau for Refugees Programs (RP) works closely with the lead agency in the U.S. Government on relief to displaced persons, the Agency for International Development (AID). To aid the Palestine refugees residing in Lebanon, RP works mainly with the United Nations Relief and Works Agency (UNRWA), which is the principal international organization delivering assistance to this group.

The $5 million you refer to supports a Congressional earmarking in the Department of State Authorization Act for assistance to displaced persons in Lebanon. From this earmarked amount, we have made a contribution of $4.0 million to the International Committee of the Red Cross (ICRC) for relief, medical services, and protection and tracing activities in Lebanon. The principal beneficiaries of our contribution will be displaced Lebanese civilians affected by the current fighting. The record of the ICRC over the years merits our confidence in the soundness of its operations, even under the difficult conditions which prevail in Lebanon. The remaining $1.0 million will fund programs for displaced Lebanese as required in the near future.

We have pledged $67.0 million to UNRWA during FY 1984, for programs to assist some 1.9 million Palestinian refugees in Lebanon, Syria, Jordan, the West Bank, and Gaza. These programs fall mainly in education and medical assistance areas, with some food assistance being furnished for vulnerable groups in the refugee population. Despite the adverse conditions in Lebanon, UNRWA is continuing to carry on an effective aid program for Palestine refugees.

AFRICAN REFUGEE ASSISTANCE

Senator Kasten: To look at your African request, it would appear that you haven't gotten the message. Inasmuch as every other foreign assistance program with respect to Africa -- whether it be special contingency funds or emergency food and humanitarian assistance -- is rapidly increasing, while your request shows a slight decline.

How do you explain this? Is the refugee and displaced person situation in Africa improving?

Mr. Purcell: The refugee situation in Africa is constantly changing in character, making it difficult to always estimate accurately the needs in advance. At the same time as long-term solutions are being achieved for some refugee groups, the resurgence of hostilities in other areas creates unanticipated new refugee problems. We believe, based on UNHCR projections and our own expectations at this time, that the monies we have requested for FY 85 will be sufficient for care and maintenance needs of African refugees.

In many countries of asylum, the nature of international assistance provided has shifted from emergency care and maintenance, to self-reliance projects, and on to development projects where refugees are integrated with the local population. The upcoming Second International Conference on Assistance to Refugees in Africa (ICARA II) will address these issues. As durable solutions are found, UNHCR involvement decreases and the development agencies should step in. In parallel, the Bureau for Refugee Programs is cooperating with AID, which has the mandate and the expertise for development assistance.

In past years, the Congress has directed RP to transfer funds to AID to be used for these longer-term solutions. We understand that some $23 million (of $45 million transferred in FY 1982 and FY 1983) are currently available for such projects. We expect that AID will request additional funds, as needed, for these purposes.

With respect to refugee needs for care and maintenance and for the type of long-term solutions which fall under the UNHCR mandate (such as voluntary repatriation or self-reliance in the country of asylum), I believe that we will be able to cover our fair share of the anticipated African refugee assistance requirements. This assumes that we will receive additional funds under our pending FY 84 supplemental request. I would note that our original FY 84 request was significantly reduced under the Continuing Resolution. We currently have $50.3 million available for African relief. The FY 84 estimated figure for Africa that you have before you, therefore, includes our FY 1984 supplemental request.

USE OF UNRWA FACILITIES

Senator Kasten: You are requesting $67 million for the United Nations Relief and Works Agency for Palestinian Refugees.

Are you continuing to monitor that agency to insure that none of the camps it runs are being used as P.L.O. political or military bases or training centers?

Mr. Purcell: The camps are administered not by UNRWA, but by the host governments of the countries in which the camps are located. However, many of UNRWA's schools, clinics and administrative offices are located in or adjacent to, the camps. It is to prevent the misuse of these facilities that UNRWA has instituted monitoring measures in all five geographic areas of operations. These measures include the increased presence of international staff in the field, frequent unannounced visits, and requirements for reports of these visits to record any irregularities.

Four field visits made by Department of State officials in recent months have confirmed the effectiveness of these measures.

OFFICE OF THE U.S. COORDINATOR FOR REFUGEE AFFAIRS

Senator Kasten: I would like to ask you a few questions about the activities of the U.S. Coordinator for Refugee Affairs.

How many people are assigned to that office? How many of those people are assigned to international questions related to your office?

Mr. Purcell: Currently there are 16 persons, including five secretaries, employed in the Office of the Coordinator for Refugee Affairs. The staff of the Office of the Coordinator is divided between domestic and international functions; however, several staff members (especially senior staffers) have responsibilities that overlap the two functions. Six members of the staff regularly perform tasks of an international nature.

Senator Kasten: Is it usual for people from that office to attend various meetings and conferences overseas on matters relating to your responsibilities? If so, why?

Mr. Purcell: Staff from the Office of the Coordinator often participate in meetings and conferences organized by my Bureau or for which we have, within the Department of State, lead responsibility. At other times, the Office of the U.S. Coordinator takes the initiative in organizing meetings or conferences regarding refugee matters. On those occasions the Bureau for Refugee Programs normally provides staff support and participates in the activities. The involvement of the Coordinator's Office occurs when the Coordinator determines that the issues at hand have policy or operational relevance beyond the normally defined responsibilities of the Department of State.

Senator Kasten: Does that office have any responsibility in putting together your budget?

Mr. Purcell: According to the Refugee Act of 1980, the Coordinator has responsibility for providing overall guidance on annual admission level and budget strategy for individual agencies. Other than providing this overall guidance, the Coordinator's Office does not participate directly in the development, defense or approval of the Bureau's budget. In addition, as you are aware, the salaries and expenses of the Office of the Coordinator are not funded through the Migration and Refugee Assistance Appropriation, but through the Department of State Appropriation, specifically under the Office of the Secretary.

APPROPRIATION LANGUAGE CHANGES

Senator Kasten: For some years the Appropriations Committee has included language in the bill, which has not heretofore been objected to by the Administration, which provides that no funds should be "used to assist directly in the migration to any nation in the Western Hemisphere of any person not having a security clearance based on reasonable standards to ensure against communist infiltration in the Western Hemisphere." The budget requests that the language "any nation in the Western Hemisphere" be stricken, and instead the language be "the United States."

Why are you recommending this change?

Mr. Purcell: The Department first recommended this change in the FY 1983 appropriations request. The reason was that the existing language requires the United States to provide security clearances for any refugees who might receive assistance funded by the United States, even though the refugee ultimately resettles not in the United States, but in other countries of the Western Hemisphere. We do not believe the requirement is necessary for those refugees admitted to other countries in the Western Hemisphere. For example, U.S. clearances would duplicate those already being performed by nations of resettlement in the Hemisphere, primarily Canada. Under the changed language, the United States would continue to perform security checks for every refugee being admitted to the United States.

REQUEST FOR NEW POSITIONS

Senator Kasten: You are requesting necessary funds to allow for seven new positions. Needless to say, this request is difficult to understand in view of the fact that your program continues to decline from a high of $503 million which was provided in fiscal year 1982.

While Congress is interested in seeing that you have the number of personnel adequate to monitor and carry out your programs, I do not see how you can justify this request. You may remember that this committee turned down a similar request two years ago when your programs were larger. You may make whatever comments you wish now on this observation, but for the record, before we would consider approval of such an increase in personnel, we would want a lot more detail.

Mr. Purcell: The reason the Department is seeking the necessary funds to allow for seven new positions is because of its concern that the Bureau is trying to manage a $330 million world-wide refugee program, involving over 25 different domestic and international agencies and 500 contract personnel with only 98 permanent positions.

While the dollar amount of the refugee programs has been declining, as you have pointed out, the importance of ensuring adequate program oversight has not. We cannot ensure that the management and monitoring of the activities on behalf of refugees of the domestic and international organizations -- accomplished with substantial U.S. funding -- in Africa, Southeast Asia, the Middle East, and Europe will be done without a sufficient number of American officials to oversee them.

The admissions program is chiefly responsible for the reduction of our overall budget, and we have made reductions in positions (both direct hire and contractor). However, the more complex, thorough and time consuming admission process that has evolved over the past two years does not permit a further reduction in personnel without seriously jeopardizing the effectiveness and reliability of our processing system for refugees seeking admissions to the U.S.

In the past eighteen months, program requirements have caused the Department to open new refugee posts in Pakistan, where there are 2.9 million Afghan refugees; in the Sudan, where there are 750,000 refugees; and in Somalia, where there are 500,000 refugees.

We have expanded the role and scope of the Office of Reception and Placement, the office responsible for conducting site visits around the country to monitor the performance of refugee resettlement by the voluntary agencies under the Reception and Placement Cooperative Agreements. We have also reactivated an Office of Program and Policy Coordination to ensure that funding and policy decisions are given thorough and thoughtful review before they are implemented.

Establishing new positions overseas, expanding existing offices and creating new ones has been accomplished only by the most judicious managment of scarce staff resources.

Trimming staff at some of the Southeast Asian posts has allowed us to reprogram positions to new activities, but this has left the Bureau terribly thin in other places and functions. We are currently discharging our responsibilities by the use of temporary duty assignments, overcomplement personnel, interns and fellows from the academic community, and a number of part time employees.

Specifically we need the following:

-- Two Officers for the Orderly Departure Program (ODP) in Bangkok. A careful analysis by our ODP staff has determined that two additional officers are needed to handle the increasing workload. The program established in 1981 is not adequate to handle the high volume of existing case files (over 120,000 active cases, numbering nearly 500,000 persons, with over 2,000 new registrations a month). This program, which is of critical importance to our long range strategy in East Asia (i.e., reduce destabilizing refugee flow into first asylum countries by processing people directly from Vietnam rather than having them risk their lives fleeing by boat or overland), cannot be maintained with the current staff. These staff shortages will become even more serious when the third and fourth UNHCR interviewers arrive in Vietnam and the number of cases requiring processing and review by the ODP officer at the Embassy in Bangkok increases.

-- Two Officers for the Office of Reception and Placement (RP/RPL) in Washington. In the last year RP/RPL has made enormous progress in relation to its responsibilities. Soon after its establishment, it began a program of systematically monitoring the work of voluntary resettlement agencies around the country. Office staff have now monitored 12 locations, had follow up visits to three and prepared detailed reports on each. The Cooperative Agreements with domestic voluntary agencies, who carry out domestic resettlement, are in their third iteration, each time being strengthened and improved. RP/RPL has also implemented all relevant sections of the Refugee Assistance Amendments of 1982 and is making further management improvements. However, these activities have been accomplished at a price. Staff routinely work a minimum 60 hours a week in Washington and 70 hours a week when monitoring. The Office has borrowed from other bureau offices to obtain staff for monitoring and has had to train these staff prior to the on-site visits. This practice is wearing thin on both RP/RPL staff and those who are tapped temporarily to assist. Regardless of these efforts, there is much more work which needs to be done to responsibly manage the office. And while the office's recent accomplishments have been recognized by GAO, the Congress and the domestic community, it is equally understood that the office is severely understaffed.

The House Judiciary Committee in its October 5, 1983 report stated: "The Refugee Bureau has also expanded its efforts to monitor the domestic resettlement activities of the voluntary agencies. While these actions are commendable, there must be a substantial augmentation of the Bureau's resources and personnel devoted to this task."

-- One Officer for RP/ASIA in Washington. RP/ASIA is responsible for the Bureau's activities and programs in an area which includes Afghanistan, Pakistan, all of the Far East and everything in between. The work of RP/ASIA is handled by a program officer for Afghanistan/Pakistan (our largest single refugee program), a second program officer for the relief and assistance programs for all of Southeast Asia, and an officer director to supervise both. An increasingly important function of RP/ASIA has been the development of the anti-piracy and rescue at sea programs. With a budget of $10 million over two years, the anti-piracy effort involves important program management and policy development duties in a field with major impact on our regional humanitarian, political and security interests. This program is of particular interest to the Congress and many members have stressed the importance they attach to the international effort directed at reducing the number of pirate attacks on refugees. All activities and operations associated with this program are currently handled by an overcomplement officer working in RP/ASIA. His departure to another assignment is imminent and the Bureau must secure a permanent position immediately. A complex and expanding program such as this cannot be managed by the remaining two officers in RP/ASIA.

-- One Foreign Service National Secretary for Khartoum. The Refugee Coordinator in Khartoum is responsible for managing and monitoring a program that provides assistance to and processing of over 750,000 Ugandan and Ethiopian refugees. The drought in Ethiopia is causing more people to cross the border into Sudan each day. The magnitude of the program both in terms of the number of refugees and the cost of their care will certainly increase in the next year. The Refugee Coordinator is currently a one officer operation with limited part-time clerical support provided by the Embassy. With the program expanding and the need of the Refugee Coordinator to be more and more involved in program management and travel around the country, it is imperative that a position be established for a full-time FSN secretary to provide clerical and administrative support and office coverage when the Refugee Coordinator is travelling.

-- One Secretary for the Office of Emergency Operations (RP/EO) in Washington. Since its inception, the Bureau has lacked adequate secretarial support. Only through the extensive use of word processing have we been able to manage at all. The two officers in the Office of Emergency Operations (RP/EO) must currently share a secretary with the two officers in the Office of International Refugee Organizations. RP/EO is charged with managing and monitoring fast-breaking refugee crises and emergencies. It is imperative that they have adequate and reliable clerical support to be ready to react and expand quickly in times of emergency.

STATE/A.I.D. ROLES IN REFUGEE ASSISTANCE

Senator Kasten: There have been uncertainties about the best roles the Department of State and A.I.D. should have in assisting refugees in developing countries. The office of the U.S. Coordinator for Refugee Affairs was requested to prepare an analysis of the roles and future directions of the Department and A.I.D. in refugee affairs two years ago.

Have any working arrangements been reached by State and A.I.D. concerning the appropriate roles of the two agencies in assisting refugees?

Mr. Purcell: The State Department's Bureau for Refugee Programs continues to take the lead in the overseas aspects of U.S. refugee programs, both for admissions to the U.S. and for assistance to refugees in place. Bureau refugee coordinators supervise refugee programs in the countries experiencing significant refugee impact. These officers work closely with A.I.D. representatives and other parts of the Ambassador's country team, and take the lead in each country in coordinating our liaison on refugee activities with the concerned agencies of the international system (UNHCR, ICRC, ICM), as well as with the host government and other governments. State/A.I.D. cooperation has been particularly significant in the current period in Africa, in connection with our preparations for the second International Conference on Assistance to Refugees in Africa (ICARA II) scheduled to take place in Geneva in July, 1984, and in Central America, where State and A.I.D. offices are working together on the problems of refugees and displaced persons in the region.

CENTRAL AMERICAN REFUGEES

Senator Kasten: It is my understanding that only about one quarter of the estimated 320,00 Central American refugees who have sought refugee status receive assistance. Others remain in Central America and Mexico, but outside organized assistance programs, and still others have illegally migrated to the United States.

Mr. Purcell: We estimate that there are about 150,000 refugees in Central America receiving international assistance. Of this group 61,700 are Salvadorans, 41,500 are Guatemalans, 32,000 are Nicaraguans, 14,200 are other Latin Americans nationalities. All refugees who have sought relief and protection from the UNHCR have obtained it. Those who have fled their country but remain outside of organized assistance programs often do so because they are able to be self-sufficient and do not seek international protection or assistance. We have no information on how many persons may be in this category. In addition, the Bureau does not collect or maintain data on individuals who have illegally migrated to the United States from Central America. Such individuals are not considered to be refugees.

Senator Kasten: On what does the United States support its continued assumption that refugees in Central America and Mexico are receiving adequate protection and resettlement opportunities?

Mr. Purcell: The Bureau for Refugee Programs works very closely with the UNHCR, the principal international organization responsible for refugee relief and protection in the region. Additionally, the Bureau continuously monitors refugee activities in asylum countries by conducting frequent site visits and inspections. Staffs of our embassies in these countries also visit and report frequently on the refugee camp situations. The Refugee Bureau makes recommendations to the international organizations that run the refugee programs whenever it is felt that improvements are necessary in a given program. The Bureau also maintains continuous liaison with governments in the countries of first asylum, as well as with those in other donor or resettlement countries.

Senator Kasten: Since U. S. contributions to UNHCR programs are unrestricted as to commodities, projects or countries for which they are used, how can the U.S. determine if such funds are used efficiently and effectively to meet refugees needs in Central America?

Mr. Purcell: The UNHCR presents a proposed program each autumn for the upcoming calendar year which describes its planned programs for each country. It also produces interim reports on the implementation of programs in key countries. This improved information flow, together with regular site visits, enables the Bureau to identify program areas.

Up to this time we have successfully obtained the cooperation of the UNHCR whenever we have felt that improvements were needed in a given situation. We have not had to impose any strict budgetary language up to this time, but have the power to do so whenever necessary, to indicate special support for particular programs or to exclude particular programs.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

Senator Hatfield: Does the U.S. provide financial support to the U.N. High Commissioner for Refugees for refugee camps in Honduras on the El Salvador border?

Mr. Purcell: Yes, the U.S., through the Department of State's Bureau for Refugee Programs, provides financial support to the UNHCR for assistance to Salvadoran refugees in Honduras near the Salvadoran border. The UNHCR's 1984 budget for Honduras is about $13 million to assist 45,600 refugees, 20,000 of whom are Salvadorans. We expect to fund about 30% of this amount.

Senator Hatfield: How many El Salvadorans are located in those camps? How many camps are there and where are they located?

Mr. Purcell: The Salvadorans are located at two main sites: Colomoncagua, which is located 4 kilometers from the border, and Mesa Grande, which is 26 kilometers from the border. There are some 8,000 refugees at Colomoncagua and 10,000 at Mesa Grande.

Senator Hatfield: Is it true that the camps will be relocated to the interior of Honduras and away from the border? Where will the camps be moved?

Mr. Purcell: The plan to move Salvadoran and Guatemalan refugees away from the border area has been under consideration by the UNHCR and the Honduran government for almost two years. It is UNHCR policy to locate refugees away from borders of conflict areas, whenever possible. The U. S. supports this policy.

The 8,000 refugees at Colomoncagua will be moved to a new site in the Yoro Department, near the town of Olanchito, as will the 600 Guatemalans presently located at El Tesoro. The 10,000 Salvadorans at Mesa Grande may be moved at a future date to allow them to benefit from the larger camp site which will provide more opportunity for crop production and freedom of movement. The ultimate goal is the safety of the refugees and enhanced opportunities for self-reliance activities.

Senator Hatfield: When will this move begin?

Mr. Purcell: The move from Colomoncagua may occur in June or July, 1984. A final decision on Mesa Grande is being held in abeyance for the time being, since there is no urgency concerning this camp.

Senator Hatfield: Who is responsible for making the determination to move these camps away from the border?

Mr. Purcell: The decision to move the camps ultimately rests with Honduras, as the host country of first asylum. The UNHCR has encouraged the Honduran government to take this decision for reasons mentioned above.

Senator Hatfield: What is the purpose of this move? One of the reasons given for the move is that there are security considerations. What are those considerations?

Mr. Purcell: The ultimate goal is the safety of the refugees--to remove them as far as possible from the conditions which caused their flight in the first place--and to enhance opportunities for self-reliance, or self-sufficiency, projects such as crop production. Security considerations revolve around the fact that Colomoncagua, and the small camp for Salvadorans at San Antonio, are located virtually on the border with El Salvador, next to the Department of Morazan, which continues to be a very tense area. The Honduran military believes, furthermore, that these camps are sometimes used as a cover by Salvadoran guerrillas who cross into Honduras to avoid the Salvadoran army. Neither of these two camps allow any significant degree of self-sufficiency.

INDOCHINESE REFUGEES

Senator Hatfield: How do you perceive Thailand's reaction to the increasing ODP numbers leaving the region, in light of the fact that each ODP number decreases the number available for departure from first asylum countries?

Mr. Purcell: Although some Thai had previously expressed concern that an increase in ODP numbers results in a corresponding decrease in the numbers available for first asylum departures, the Thai now seem to recognize that the increase in ODP numbers has contributed to the reduction of refugees arriving in first asylum countries by boat.

For example, in FY81 there were 81,222 boat arrivals in countries of first asylum and 7,547 departures to countries participating in the ODP. In the first five months of FY84, there were 8,437 boat arrivals and 10,164 ODP departures.

Senator Hatfield: Do you feel ODP departees should be included in the fiscal year ceilings, as is the current practice, or do you feel they should be counted separately?

Mr. Purcell: We have undertaken a study of the feasibility of counting separately those refugees who enter the U.S. through the ODP. However, as the study has not been completed, we are not in a position to comment further at this time.

Senator Hatfield: What do you expect to be the residual population in Thailand at the end of FY85?

Mr. Purcell: There are many variables involved: new arrivals, ODP, other government programs, etc. Since we have no control over these variables, the size of the residual population would be difficult to predict.

Senator Hatfield: How does the American government plan to respond to the closing of Khao-I-Dang?

Mr. Purcell: We have received no indication from the Royal Thai Government that it plans to close the Khao-I-Dang refugee camp in the near future. If and when this should occur, we would support efforts of the UNHCR to work with the Thai on alternative arrangements for the remaining Khmer.

SALVADORAN POLITICAL ASYLUM CASES

Senator Hatfield: In the hearing I directed a question to Mr. Purcell in which I asked him to account for the high rejection rate for Salvadoran political asylum cases. His response dealt with refugees in Central America but did not deal with asylums in the U.S. How do you account for the tremendously low acceptance rate for Salvadoran refugees, in light of the documented death squad activities in El Salvador?

Mr. Purcell: The Bureau for Refugee Programs is responsible only for the admission of refugees and not for asylum cases. The Bureau of Human Rights and Humanitarian Affairs, which is the responsible office within the State Department, has provided the following response:

The Department of State does not determine who shall be given asylum, but only renders advisory opinions to the Immigration and Naturalization Service, which has statutory responsibility for making the decision.

We continue to believe the majority of Salvadorans coming to the United States are apolitical farmers or working class people who have left their country to escape random violence, seek economic opportunity or evade military service.

Each application for asylum is individually reviewed in light of the Immigration and Nationality Act, which defines the term "refugee". Applicants for asylum status must meet the definition of "refugee" provided by Section 101 (A) (42) of the Immigration and Nationality Act. That section defines a refugee as a person outside of his country of nationality who is unwilling, or unable, to return to such country because of persecution, or a well-founded fear of persecution, because of race, religion, nationality, membership in a particular social group or political opinion.

We believe it is clear that the present Government of El Salvador does not foster a policy of persecution against its own citizens because of race, religion, nationality, membership in a particular social group or political opinion. Threats of violence might come from armed gangs or from the insurgents, however.

If persons are individually able to demonstrate that they have been targeted for revenge or retribution by groups from either the right or left, or even elements impossible to classify on the political spectrum, they will qualify for asylum. No political considerations of any kind, including the state of our relations with El Salvador, enter into the asylum process.

We believe most Salvadoran asylum applicants -- economic migrants, those fleeing random violence, and draft evaders -- could return to their homeland and lead relatively normal lives, certainly free from threat of persecution on an individual basis.

OFFICE FOR COMBATTING TERRORISM

STATEMENT OF HON. ROBERT M. SAYRE, DIRECTOR, OFFICE FOR COMBATTING TERRORISM, DEPARTMENT OF STATE

ANTITERRORISM TRAINING PROGRAM

Senator KASTEN. Our next witness is Ambassador Robert Sayre. It is good to see you again. In the interest of time, as I mentioned before, I would hope that you could summarize your statement. Your entire statement will appear in the record, and then we can move right into questions.

Please proceed.

Ambassador SAYRE. Thank you, Mr. Chairman.

I appreciate this opportunity to appear before you to report on the antiterrorism training program, which the Congress approved in November 1983, and for which it provided $2.5 million in funding for fiscal year 1984. This committee has played a key role in approving this program, which the President first recommended to the Congress in March 1982.

As if to underline the need for urgent action, and the timeliness of the Congress in approving this program, we recorded the highest number of terrorist incidents in 1983 since we began keeping records on international terrorism in 1968. But what was even a greater tragedy for the United States, there were more American personnel killed in terrorist incidents in 1983 than in all the previous years together.

RESPONSIBILITIES FOR COMBATTING TERRORISM

The responsibility for combatting terrorism rests essentially with civil law enforcement officers. Although what we are dealing with is political violence and warfare against democratic societies, it is the civil policeman who must respond and defend the public.

It is the Federal Bureau of Investigation, other Federal enforcement agencies, and State and local police that are combatting terrorism in the United States, and it is their counterparts in other countries that have the responsibility there.

That is why we believe we must improve the training of these civil officials in dealing with terrorism, acquaint them with the tactics and methods of operation of terrorists, and train them in techniques to defend against such tactics and methods, and also provide them with the equipment that they need and assist them in obtaining that if they do not have the resources themselves.

This training program is, of course, only a part of the overall effort of this administration for combatting terrorism. It is, however, an essential part, and the acceptance by the Congress of that fact and its cooperation in this program has been a most welcome development.

IMPLEMENTATION OF TRAINING PROGRAM

After Congress authorized and appropriated funds for this program, we immediately began to implement it. On January 7, 1984, we submitted our first notification of progress in accordance with section 574 of the Foreign Assistance Act. In that notification, we described the steps we have taken to establish organizational arrangements.

We expect to process through our program between 200 and 300 foreign government officials by the end of the current fiscal year, picking up momentum as we proceed. I should, however, bring to the committee's attention that the resources of U.S. law enforcement agencies are heavily committed this year.

This year will be an extremely busy one for the U.S. Government agencies responsible for the general security and protection against terrorism. Apart from all of the activities connected with a presidential election, there will be the 1984 Olympics in Los Angeles, and the World's Fair in New Orleans.

Preparation for these events is putting a heavy strain on available resources. We are working with the agencies concerned, however, to make sure that we move ahead with this program.

Our objective is to create a long-term cooperative relationship between the U.S. Government and the governments of participating countries. As the training progresses, and the capability of the host government authorities improves, this relationship should naturally shift its emphasis from training and assistance to expanded cooperation in the fight against terrorism.

The first response from governments to whom we have explained this approach has been highly enthusiastic. They agree that coordination and cooperation is the key to success and welcome the concept of an ongoing bilateral relationship with the U.S. Government.

The administration originally requested $5 million for the first year of the antiterrorism assistance program. Congress appropriated half of that amount for fiscal year 1984. We will have, in fact, only training programs in operation for the latter half, and the amount available is adequate for 1984.

For 1985, we will be in a full 12-month operational period. The administration is once again requesting $5 million. By the beginning of 1985, we hope to have the program operating at full speed.

COOPERATIVE EFFORT AGAINST THREAT OF POLITICAL TERRORISM

Mr. Chairman, last year I stated that the administration was convinced that present day political terrorism posed a serious threat to us, to our friends, and to organized international society. The events and developments of the past year have confirmed that.

I also said that we believe that an international effort was necessary to deal with that danger. The tragic events of Beirut, Kuwait, Rome, and a dozen other places, only stiffen our resolve to resist terrorism in cooperation with other responsible governments. This program is one of the means by which we are pursuing this policy of cooperation, and on behalf of the administration, I solicit your continued support. Thank you.

[The prepared statement of Ambassador Sayre follows:]

PREPARED STATEMENT

AMBASSADOR ROBERT M. SAYRE

DIRECTOR, OFFICE FOR COMBATTING TERRORISM

MR. CHAIRMAN:

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TO REPORT ON THE ANTI-TERRORISM ASSISTANCE PROGRAM WHICH THE CONGRESS AUTHORIZED IN NOVEMBER 1983 AND FOR WHICH IT PROVIDED $2.5 MILLION IN FUNDING FOR FY 1984. THIS COMMITTEE HAS PLAYED A KEY ROLE IN APPROVING THIS PROGRAM WHICH THE PRESIDENT FIRST RECOMMENDED TO THE CONGRESS IN MARCH 1982.

AS IF TO UNDERLINE THE NEED FOR URGENT ACTION, AND THE TIMELINESS OF THE CONGRESS IN APPROVING THIS PROGRAM, WE RECORDED THE HIGHEST NUMBER OF TERRORIST INCIDENTS IN 1983 SINCE WE BEGAN KEEPING RECORDS ON INTERNATIONAL TERRORISM IN 1968. BUT WHAT WAS EVEN A GREATER TRAGEDY FOR THE UNITED STATES, THERE WERE MORE AMERICAN PERSONNEL KILLED IN TERRORIST INCIDENTS IN 1983 THAN IN ALL THE PREVIOUS YEARS TOGETHER.

THE RESPONSIBILITY FOR COMBATTING TERRORISM RESTS ESSENTIALLY WITH CIVIL LAW ENFORCEMENT OFFICERS. ALTHOUGH WHAT WE ARE DEALING WITH IS POLITICAL VIOLENCE AND WARFARE AGAINST DEMOCRATIC SOCIETIES, IT IS THE CIVIL POLICEMAN WHO MUST RESPOND AND DEFEND THE PUBLIC. IT IS THE FEDERAL BUREAU OF INVESTIGATION, OTHER FEDERAL ENFORCEMENT AGENCIES, AND STATE AND LOCAL POLICE THAT ARE COMBATTING TERRORISM IN THE UNITED STATES AND IT IS THEIR COUNTERPARTS IN OTHER COUNTRIES THAT HAVE THE RESPONSIBILITY THERE. THAT IS WHY WE BELIEVE THAT WE MUST IMPROVE THE TRAINING OF THESE CIVIL OFFICIALS IN DEALING WITH TERRORISM, ACQUAINT THEM WITH THE TACTICS AND METHODS OF OPERATIONS OF TERRORISTS AND TRAIN THEM IN TECHNIQUES TO DEFEND AGAINST SUCH TACTICS AND METHODS, AND ALSO ADVISE THEM ON EQUIPMENT NEEDS AND ASSIST THEM IN OBTAINING THAT IF THEY DO NOT HAVE THE RESOURCES THEMSELVES.

THIS TRAINING PROGRAM IS, OF COURSE, ONLY A PART OF THE OVERALL EFFORT OF THIS ADMINISTRATION'S PROGRAM FOR COMBATTING TERRORISM. IT IS, HOWEVER, AN ESSENTIAL PART AND THE ACCEPTANCE BY THE CONGRESS OF THAT FACT AND ITS COOPERATION IN THIS PROGRAM HAS BEEN A MOST WELCOME DEVELOPMENT.

WE EXPECT THROUGH THIS PROGRAM TO ACCOMPLISH A NUMBER OF OBJECTIVES OF INTEREST TO THE UNITED STATES AND OUR FRIENDS. FIRST, THE TRAINING AND RELATED ASSISTANCE WILL ENHANCE THE ANTI-TERRORISM SKILLS OF PARTICIPATING GOVERNMENTS. THIS WILL ENABLE THEM TO DEFEND THEMSELVES BETTER AGAINST TERRORIST THREATS AND ATTACKS, AND PROTECT PRIVATE AND OFFICIAL AMERICAN CITIZENS AND INTERESTS LOCATED OUTSIDE THE UNITED STATES.

SECOND, IT WILL STRENGTHEN THE BILATERAL RELATIONSHIP BETWEEN THE UNITED STATES AND PARTICIPATING COUNTRIES IN THIS AREA OF GREAT MUTUAL CONCERN. THIS IMPROVEMENT OF BILATERAL TIES WILL BE REFLECTED ACROSS THE BOARD IN OTHER AREAS OF MUTUAL INTEREST, BUT MOST SPECIFICALLY BY GREATER COOPERATION IN THE FIGHT AGAINST TERRORISM.

THIRD, IT WILL CONTRIBUTE TO THE OVER-ALL EFFECTIVENESS OF CIVILIAN GOVERNMENT. IN THE LONG RUN, THE BEST DEFENSE AGAINST TERRORISM IS THE EXISTENCE OF EFFECTIVE, RESPONSIBLE CIVIL GOVERNMENT CONCERNED WITH THE WELL-BEING OF THE GENERAL POPULATION AND SOLICITOUS OF HUMAN RIGHTS AND DEMOCRATIC IDEALS.

AFTER CONGRESS AUTHORIZED AND APPROPRIATED FUNDS FOR THIS PROGRAM, WE IMMEDIATELY BEGAN TO IMPLEMENT IT. ON JANUARY 27, 1984 WE SUBMITTED OUR FIRST NOTIFICATION OF PROGRESS, IN ACCORDANCE WITH SECTION 574 OF THE FOREIGN ASSISTANCE ACT. IN THAT NOTIFICATION WE DESCRIBED THE STEPS WE HAD TAKEN TO ESTABLISH ORGANIZATIONAL ARRANGEMENTS, SPECIFICALLY THE ESTABLISHMENT OF A NEW DIVISION FOR ANTI-TERRORISM COOPERATION IN THE STATE DEPARTMENT'S OFFICE FOR COMBATTING TERRORISM. THE NECESSARY ARRANGEMENTS WITH THE OTHER UNITED STATES GOVERNMENT AGENCIES WHICH WILL COOPERATE IN THE ANTI-TERRORISM ASSISTANCE PROGRAM ARE ALMOST ALL IN PLACE AND, MOST IMPORTANT, DISCUSSIONS HAVE BEEN OPENED WITH POTENTIAL PARTICIPATING GOVERNMENTS.

WE HAVE PROVIDED THE CONGRESS WITH A LIST OF PROSPECTIVE PARTICIPATING COUNTRIES AND BEGUN CONSULTATIONS WITH A NUMBER OF THEM THAT OUR EMBASSIES REPORTED WOULD BE INTERESTED. WE ARE PLANNING TO RECEIVE THE FIRST FOREIGN PARTICIPANTS FOR THE FIRST TRAINING AND ORIENTATION PROGRAMS IN THE NEXT FEW MONTHS.

AT THIS POINT, I WOULD LIKE TO OUTLINE THE METHODOLOGY OF THE PROGRAM WE ARE OFFERING TO OUR FOREIGN FRIENDS.

WE ARE PROPOSING FIRST AN EXECUTIVE ORIENTATION

SEMINAR. THIS SEMINAR WILL PROVIDE A GROUP OF BETWEEN EIGHT AND 20 SENIOR CIVILIAN OFFICIALS FROM A SINGLE GOVERNMENT AN INTRODUCTION TO THE RANGE OF QUESTIONS AND PROBLEMS REQUIRED FOR AN EFFECTIVE ANTI-TERRORISM POLICY: CRISIS MANAGEMENT, HOSTAGE NEGOTIATION, TRANSPORTATION SECURITY, IMMIGRATION AND CUSTOMS CONTROLS, INTERAGENCY COORDINATION, ETC. AT THE SAME TIME, THE SEMINAR WILL BRIEF THEM ON USG ORGANIZATION AND TECHNIQUES. FINALLY, IT WILL INFORM THEM OF THE RANGE OF AVAILABLE TRAINING AND OTHER ASSISTANCE PROGRAMS WHICH THE USG IS PREPARED TO PROVIDE TO THEIR GOVERNMENT.

BASED ON THE BACKGROUND FROM THE SEMINAR, WE WILL ASK THEM TO ASSESS THEIR OWN COUNTRY'S NEEDS AND RESOURCES AND TO PROVIDE US WITH A DETAILED TRAINING AND ASSISTANCE PROGRAM DEFINING THEIR NEED FOR SPECIALIZED TRAINING.

OUR TENTATIVE PLANS CALL FOR A MINIMUM OF TWO SUCH SEMINARS PER MONTH, DEPENDING, OF COURSE, ON DEMAND AND SPACE AVAILABILITY. SEVERAL MONTHS AFTER THE CONCLUSION OF THE FIRST SEMINAR, WE WOULD EXPECT THAT FOLLOW-UP COURSES IN TECHNICAL PROGRAMS WOULD BEGIN. TO ASSIST GOVERNMENTS IN IDENTIFYING THEIR TRAINING NEEDS WE PLAN TO CONSIDER FAVORABLY REQUESTS FOR ASSESSMENT EXPERTS FROM THE COOPERATING USG DEPARTMENTS.

WE EXPECT TO PROCESS THROUGH OUR PROGRAM BETWEEN 200 AND 300 FOREIGN GOVERNMENT OFFICIALS BY THE END OF THE CURRENT FISCAL YEAR PICKING UP MOMENTUM AS WE PROCEED. I SHOULD, HOWEVER, BRING TO THE COMMITTEE'S ATTENTION THAT THE RESOURCES OF US LAW ENFORCEMENT AGENCIES ARE HEAVILY COMMITTED THIS YEAR. THIS YEAR WILL BE AN EXTREMELY BUSY ONE FOR THE USG AGENCIES RESPONSIBLE FOR GENERAL SECURITY

AND PROTECTION AGAINST TERRORISM. APART FROM ALL THE ACTIVITIES CONNECTED WITH A PRESIDENTIAL ELECTION THERE WILL BE THE 1984 OLYMPICS AND THE WORLD'S FAIR IN NEW ORLEANS. PREPARATION FOR THESE EVENTS IS PUTTING A GREAT STRAIN ON THE AVAILABLE RESOURCES OF THE FEDERAL GOVERNMENT'S LAW ENFORCEMENT AGENCIES, INCLUDING THEIR TRAINING FACILITIES. THESE ARE EXACTLY THE FACILITIES WHICH ARE REQUIRED FOR THE IMPLEMENTATION OF THE ANTI-TERRORISM TRAINING PROGRAM. OUR COLLEAGUES IN THESE AGENCIES TELL US THAT THEY WILL COOPERATE TO THE FULLEST EXTENT POSSIBLE, BUT WE ARE AWARE OF THE SCHEDULING PROBLEMS THEY FACE. DESPITE THIS PROBLEM, WE WILL MAKE A GOOD BEGINNING THIS FISCAL YEAR.

OUR OBJECTIVE IS TO CREATE A LONG-TERM COOPERATIVE RELATIONSHIP BETWEEN THE USG AND THE GOVERNMENTS OF PARTICIPATING COUNTRIES. AS THE TRAINING PROGRESSES AND THE CAPABILITY OF THE HOST GOVERNMENT AUTHORITIES IMPROVE, THIS RELATIONSHIP SHOULD NATURALLY SHIFT ITS EMPHASIS FROM TRAINING AND ASSISTANCE TO EXPANDED COOPERATION IN THE FIGHT AGAINST TERRORISM. THE FIRST RESPONSE FROM GOVERNMENTS TO WHOM WE HAVE EXPLAINED THIS APPROACH HAS BEEN HIGHLY ENTHUSIASTIC. THEY AGREE THAT COORDINATION AND COOPERATION IS THE KEY TO SUCCESS AND WELCOME THE CONCEPT OF AN ON-GOING BILATERAL RELATIONSHIP WITH THE USG IN THIS AREA OF GREAT MUTUAL CONCERN.

A FEW BRIEF WORDS AS TO OUR OWN MANAGEMENT OF THIS PROGRAM MIGHT BE USEFUL AT THIS TIME. THE ANTI-TERRORISM ASSISTANCE PROGRAM WILL BE MANAGED BY THE DEPARTMENT OF STATE, SPECIFICIALLY THE OFFICE FOR COMBATTING TERRORISM. US MISSIONS ABROAD WILL OVERSEE THE BILATERAL RELATIONSHIP WITH THE HOST GOVERNMENTS. THE US MISSION WILL HAVE THE KEY

ROLE IN INTEGRATING THIS PROGRAM INTO OVERALL US POLICY IN THAT COUNTRY. THE ACTUAL PROFESSIONAL CONTENT OF THE ASSISTANCE AND TRAINING ACTIVITIES WILL BE PROVIDED BY THE COOPERATING USG DEPARTMENTS AND ORGANIZATIONS. FOR THE MOMENT, THIS MEANS THE OFFICE OF SECURITY OF THE DEPARTMENT OF STATE, THE FBI, THE DEPARTMENT OF TRANSPORTATION (PARTICULARLY THE FEDERAL AVIATION ADMINISTRATION AND THE TRANSPORTATION SAFETY INSTITUTE), AND THE DEPARTMENT OF THE TREASURY (PARTICULARLY THE FEDERAL LAW ENFORCEMENT TRAINING CENTER AND THE US CUSTOMS SERVICE).

THE PLANS I HAVE OUTLINED HERE TODAY ARE OBVIOUSLY DIRECTED TOWARDS THE MORE URGENT NEEDS OF CERTAIN GOVERNMENTS WITH PARTICULAR NEEDS FOR TECHNICAL SKILLS IN THIS AREA. THE COMMITTEE WILL BE INTERESTED TO KNOW THAT WE HAVE BEGUN DISCUSSIONS OF OUR PROPOSED ASSISTANCE PROGRAM WITH CERTAIN OTHER GOVERNMENTS PROVIDING SIMILAR OR RELATED ASSISTANCE. WE INTEND TO COORDINATE OUR ACTIVITIES WITH OUR FRIENDS AND ALLIES IN ORDER TO MAXIMIZE THE RESOURCES AVAILABLE. OUR LONG-TERM OBJECTIVE IS TO FOSTER AND ENCOURAGE A MULTILATERAL EFFORT BY ALL RESPONSIBLE GOVERNMENTS.

THE ADMINISTRATION ORIGINALLY REQUESTED $5 MILLION FOR THE FIRST YEAR OF THE ANTI-TERRORISM ASSISTANCE PROGRAM. CONGRESS APPROPRIATED HALF OF THAT AMOUNT FOR FY 1984. WE WILL IN FACT ONLY HAVE TRAINING PROGRAMS IN OPERATION FOR THE LATTER HALF AND THE AMOUNT AVAILABLE IS ADEQUATE. FOR FY 1985, WHICH WILL BE A FULL 12 MONTH OPERATIONAL PERIOD, THE ADMINISTRATION IS ONCE AGAIN REQUESTING $5 MILLION. BY THE BEGINNING OF FY 1985, WE HOPE TO HAVE THE PROGRAM OPERATING AT FULL SPEED.

WE HAVE MADE AN ENERGETIC BEGINNING IN IMPLEMENTING THIS PROGRAM. THE ADMINISTRATIVE ARRANGEMENTS ARE IN PLACE AND WE HAVE OPENED DISCUSSIONS WITH A LARGE NUMBER OF INTERESTED POTENTIAL PARTICIPANTS. WE EXPECT TO BEGIN ACTUAL TRAINING AND ASSISTANCE PROGRAMS WITHIN THE NEXT MONTH.

MR. CHAIRMAN, LAST YEAR I STATED THAT THE ADMINISTRATION WAS CONVINCED THAT PRESENT DAY POLITICAL TERRORISM POSED A SERIOUS THREAT TO US, TO OUR FRIENDS, AND TO ORGANIZED INTERNATIONAL SOCIETY. THE EVENTS AND DEVELOPMENTS OF THE PAST YEAR HAVE ONLY CONFIRMED THAT. I ALSO SAID THAT WE BELIEVED THAT AN INTERNATIONAL EFFORT WAS NECESSARY TO DEAL WITH THAT DANGER. THE TRAGIC EVENTS OF BEIRUT, KUWAIT, ROME AND A DOZEN OTHER PLACES ONLY STIFFENS OUR RESOLVE TO RESIST TERRORISM IN COOPERATION WITH OTHER RESPONSIBLE GOVERNMENTS. THE ANTI-TERRORISM ASSISTANCE PROGRAM IS ONE OF THE MEANS BY WHICH WE ARE PURSUING THIS POLICY OF COOPERATION, AND ON BEHALF OF THE ADMINISTRATION I SOLICIT YOUR CONTINUED SUPPORT.

THANK YOU.

INITIAL PARTICIPATING COUNTRIES

Senator KASTEN. Ambassador Sayre, thank you very much.

I want to compliment you, first of all, on the statement which you submitted for the record. It does a thorough and a concise job of explaining just where the program now stands, and I think also the need for it.

As I know you are aware, it is important that Members of the Congress, both the House and the Senate, understand exactly what you are doing, because there has been over the years a good bit of misunderstanding as to exactly what those dollars were going to be used for. I know you are going to be doing everything you can personally, and with your staff, in working to educate people as to exactly how these dollars will be used.

When do you anticipate that you will be able to inform the committee on which countries you will be working with initially in this program?

Ambassador SAYRE. We sent to the Congress on January 27 a list of countries that we wanted to propose a program for. You have that list. We have been consulting with these countries, and I hope that within the next 30 to 60 days, we would be able to tell you which countries we would be working with.

Senator KASTEN. The list that you gave us in January is similar to the list that we had in last year's testimony, I think, in terms of the possibilities.

Ambassador SAYRE. Yes.

Senator KASTEN. My question is who is going to be participating this year?

Ambassador SAYRE. We should be able to tell you that within the 30 to 60 days. We already have some countries. We, in fact, have already scheduled a couple of countries to come.

Senator KASTEN. You want to announce the whole group together, is that your intention?

Ambassador SAYRE. I would prefer to do that.

OTHER COUNTRIES WITH ANTITERRORISM TRAINING PROGRAMS

Senator KASTEN. Last year you mentioned the possibility that other countries might be interested in participating in this program. I assume as donors to the program. What countries are interested in so involving themselves as donors to this program?

Ambassador SAYRE. They would not be donors to this specific program, but we have been talking with some of our Summit Seven partners, and there are three of them that have programs of this nature—the British, the French, and the Federal Republic of Germany. We have arrangements to coordinate our program with theirs.

Senator KASTEN. When you say, "programs of this nature," are they training people in their own country, or are they training foreigners in their country?

Ambassador SAYRE. They are doing both.

INTEREST OF INTERNATIONAL GROUPS

Senator KASTEN. Then that leads into the next question. What is the attitude of international bodies, the United Nations and others, toward the problem of terrorism, and specifically toward seeking the kind of solutions that we are working with, and also the British, and the French. What was the other country you named?

Ambassador SAYRE. The Federal Republic of Germany.

Senator KASTEN. Is there any effort underway, or is there any discussion about some how trying to put this whole antiterrorist training into an international body, or an international group?

Ambassador SAYRE. The United Nations has been particularly helpful on the problem of developing international law on the subject, but there isn't any international group that is considering running a program of this nature.

COORDINATION WITH EUROPEAN ALLIES

Senator KASTEN. You are going to be coordinating it with British, the French, and the Germans?

Ambassador SAYRE. We will coordinate it with other governments, especially our European allies.

ADDITIONAL HEARINGS FOR LAW ENFORCEMENT AGENCIES

Senator KASTEN. Senator D'Amato, as you know, who is a member of this subcommittee, has expressed some special interest in this program, largely because there have been so many instances of terrorism in the city of New York. I know he is contemplating the possibility of expanding the subcommittee's examination of the problem, perhaps holding additional hearings on the question, including asking other law enforcement agencies to testify, such as the New York authorities who have to deal with this problem in a very real sense.

I understand that your job, in setting up this training, if you will, is slightly different than what Senator D'Amato is thinking about. Would you have any suggestions as to who might be some of the best experts to participate in such a hearing in terms of dealing with terrorism and antiterrorism efforts, particularly in New York City?

Ambassador SAYRE. We can provide you names. I know very well that the New York City Police Department has been one of the most effective in dealing with this. They were the first ones to set up negotiating teams to deal with these kinds of problems. They have been more or less the pioneer in this kind of effort. But there are other police departments around the United States that are also quite effective. We can provide you with some of that information.

SUBMITTED QUESTIONS

Senator KASTEN. I have a number of other questions, Mr. Ambassador, which we will submit to you for the record. I do not have any further questions at this time, but I do want you to keep us informed, particularly as you pick that first group of countries. We want to continue to work with you.

We support your efforts, as you know. I am hopeful that more people in Congress will learn about your program. I believe that as the education process improves or increases, support for what you are doing will also increase.

We thank you very much for your testimony.

Ambassador SAYRE. Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

ANTITERRORISM ASSISTANCE PROGRAM

Senator KASTEN. Has the program been well received, and as a measure of whether or not it has been well received, have those countries shown a willingness to dedicate some of their own funds for this program?

If so, generally to what extent?

Ambassador SAYRE. The program has been very well received. Well over half the countries contacted so far have expressed active interest in participating in the initial senior seminar/consultation phase in the coming months. We will begin receiving foreign participants in April. Almost all countries which are interested have indicated a willingness to pay at least part of the costs, for instance, the international travel expenses of their officials.

Senator KASTEN. How many people are assigned full time to the Office for Combatting Terrorism?

Ambassador SAYRE. The entire staff of the Office for Combatting Terrorism totals at present 13 officers and 6 secretarial personnel. Of these, 4 officers and 2 secretaries are assigned to the division of antiterrorism programs, which is the unit responsible for the antiterrorism assistance program.

BUREAU OF INTERNATIONAL NARCOTICS MATTERS

STATEMENT OF DOMINICK L. DICARLO, ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE

PROGRAM OVERVIEW

Senator KASTEN. Our last witness this afternoon is Dominick DiCarlo, Assistant Secretary of State for the Bureau of International Narcotics Matters (INM).

Mr. DiCarlo, first of all, it is good to see you again. If you also could summarize your statement, the entire statement will be included in the record. Please proceed.

Mr. DICARLO. Thank you, Mr. Chairman.

Mr. Chairman, before I start, seated to my right is Mr. Clyde Taylor, Deputy Assistant Secretary of State for INM, and to my left is our Executive Director, Mr. James Van Wert.

The President is requesting an appropriation of $50.2 million for the Department's international narcotics control program. The Department proposes to allocate $40.5 million, or 81 percent of the budget request, to country programs, including $29.4 million for Latin America, $8.1 million for East Asia, and $3 million for Southwest Asia.

ERADICATION PROJECT IN COLOMBIA

The program request of $10.3 million for Colombia is based on achieving the goal of negotiating agreements to assist Colombia in a comprehensive marihuana eradication program and an expanded coca control program.

The Department looks forward to a test program this spring in which the Colombians will conduct pilot eradication projects in both the coca and the cannabis growing areas. We hope these pilot projects will be forerunners of a sustained, comprehensive eradication project in Colombia. We have been encouraged by our continuing discussions with Colombia officials.

CONTINUED CONTROL EFFORTS IN BOLIVIA

Our 1985 request of $5.5 million for Bolivia is based upon a continuation of the control efforts undertaken in 1984, which are budgeted at $5.7 million. On August 11, 1983, the United States signed agreements with the Government of Bolivia which have the long-term objective of reducing that country's coca cultivation to levels needed for legitimate purposes.

The agreements include U.S. assistance for crop eradication, for developing police strike forces to establish law and order in the

Chapare growing region, and for establishing a system for managing the illicit coca production industry.

ASSISTANCE TO PERU

The Department is requesting $3.5 million for Peru, a slight increase over the 1984 estimated expenditure of $3 million. Nearly $300,000 of the proposed increase is to expand assistance mobile rural patrol units, including replacement of vehicles, and to assist in establishing another mobile type of unit elsewhere in Peru.

MEXICO'S NARCOTICS CONTROL PROGRAMS

The Department is requesting $8.9 million to support Mexico's narcotics control programs, a net increase of $400,000, reflecting increases for aviation maintenance, and new assistance to field operations, in addition to providing two additional aircraft.

REGIONAL PROGRAMS IN LATIN AMERICA

We are requesting $1 million for our Latin American regional programs. The Drug Enforcement Administration, Customs and the U.S. Coast Guard are continuing an effort to halt the flow of drugs from Latin America through the Caribbean. INM contributes to this effort by supporting selected crop control, law enforcement, and antinarcotic activities.

REQUESTED FUNDING LEVEL FOR SOUTHEAST ASIA

A total of $3 million is requested for Southwest Asia, down from an estimated expenditure of $4 million in 1983. This decreased level primarily reflects reduced obligations of about $900,000 in Pakistan where the INM funded Malakand Development Project is nearing completion. However, the crop control component contains funds for agricultural development and out-reach to other areas as forerunners to projected rural development projects linked to eliminating opium cultivation.

SUPPORT FOR PAKISTANI ENFORCEMENT EFFORTS

The $2 million requested for Pakistan narcotics control in fiscal year 1985 provides continued support for the reduction of poppy cultivation, and for enforcement efforts against heroin processing and trafficking. The agreement is that Pakistan will enforce the poppy ban in areas where developmental assistance is being provided.

Reports indicate that acreage under opium poppy cultivation in the area of the Malakand Agency Development Project has declined substantially from the 1981–82 crop year as a result of government enforcement efforts and inducements to cultivate alternative cash crops, as well as depressed opium prices.

The objective for this project is to eliminate remaining opium poppy cultivation in the Malakand during the 1984–85 season. Our continuing principal goal is enforcement of the Pakistani ban throughout the Northwest Frontier Province growing areas.

In fiscal year 1983, the Agency for International Development began a similar narcotics related development project in the Gadoon-Amazi area. This area was estimated to account for about half of the 1982–83 opium production, and should be opium-free in the 1986–87 crop year.

Discussions have begun on approaches to poppy control in remaining merged areas like the Dir. In late 1983, the government announced that it was extending its narcotics laws into the tribal areas, the source of as much as 20 percent of Pakistini opium production.

The Bureau continues commodity and training assistance to the Pakistani narcotics enforcement agencies to upgrade their capabilities. I should point out that opium production, because of the efforts of the Pakistani Government, and other reasons such as price and weather, but substantially because of the ban on opium production, has decreased from about 800 tons in 1979–80, to a point where it is estimated to be below 60 tons during the current year.

TURKEY AS TRANSIT CENTER

While controlling its own opium production, Turkey remains a key transit center for Southwest Asian opium and heroin. We request $900,000 to upgrade its enforcement capabilities.

REQUEST FOR SOUTHEAST ASIA

A total of $8.1 million is requested for Southeast Asia, including an increase of $500,000 for Burma which primarily reflects increased cost of aviation maintenance.

We have budgeted $2.8 million for Thailand, a $300,000 increase. It consists of $350,000 for increased commodities to support the in-country and border interdiction efforts, and an additional $320,000 to support an expanded crop production control program in 20 civilian-police-military command villages.

The $5 million budgeted for Burma includes a $500,000 increase. This will enhance the Burmese Air Force's capability to airlift ground forces engaged in poppy eradication and interdiction operations, expand training programs, and improve telecommunications.

UNITED NATIONS FUND FOR DRUG ABUSE CONTROL

Since its founding in 1971, the U.S. sponsorship of the U.N. Fund for Drug Abuse Control (UNFDAC) has been a vehicle for implementation of crop control enforcement and demand reduction programs.

Major donors to the Fund recently reached a consensus with the Fund's management that all UNFDAC development projects will contain drug control enforcement provisions, and that such economic assistance will be linked to commitments by recipient governments to eliminate illicit narcotics crops within a specified time. The Department has budgeted $2.7 million as its contribution to UNFDAC in the fiscal year 1985.

The Department has urged greater drug control contributions and diplomatic efforts by Australia, Canada, Japan, New Zealand, and Saudi

Arabia, as well as by European nations, with emphasis on crop control, and European support for an UNFDAC coca control program.

A significant step toward achievement of this objective was taken in 1983 when the Government of Italy pledged $40 million over a 5-year period to UNFDAC to support coca control programs in South America.

SUMMARY OF STRATEGIC CONTROL EFFORTS

In sum, the Department is pursuing the administration strategy of increasing crop control and interdiction in the source countries. The requested increase for fiscal year 1985 centers on the coca and marihuana threat from South America, while expanding the efforts to reduce the influx of heroin from Southwest and Southeast Asia. In addition, the Department is stepping up its diplomatic and financial efforts to increase multilateral contributions to U.N. programs which can result in more universally supported projects.

[The prepared statement of Mr. DiCarlo follows:]

United States Department of State

Washington, D.C. 20520

PREPARED STATEMENT

ASSISTANT SECRETARY DOMINICK L. DICARLO
BUREAU OF INTERNATIONAL NARCOTICS MATTERS

MR. CHAIRMAN:

The President is requesting an appropriation of $50,217,000 for the Department's international narcotics control program managed by the Bureau of International Narcotics Matters (INM). If enacted by the Congress, the appropriation would be $9,017,000 over the amount actually appropriated for Fiscal Year 1984 under continuing resolution.

The Department proposes to allocate $40.5 million, or 81 percent of the budget request to country programs, including $29.4 million for Latin America, $8.1 million for East Asia, and $3 million for Southwest Asia. Most country programs would remain at the 1984 level or increase slightly, with the largest increase being an additional $6.8 million to support a crop control program in Colombia which we hope to negotiate this year.

Latin America Summary

The Department proposes to allocate $29,450,000 or 59 percent of the budget request in Latin America, which is the single source of cocaine, the primary source of imported marijuana, and, in 1982, was the source of about 34 percent of U.S. heroin imports.

The program request of $10,300,000 for Colombia is based on achieving the goal of negotiating agreements to assist Colombia in a comprehensive marijuana eradication program and an expanded coca control program.

The Department believes that the Betancur Administration is committed to narcotics control, and look forward to a test program this Spring in which the Colombians will conduct pilot eradication projects in both the coca and cannabis growing areas. We hope these pilot projects will be the forerunners of a sustained, comprehensive eradication project in Colombia. We have been encouraged by our meetings last fall with a Colombian technical team which visited Mexico and the United States to discuss herbicidal eradication methods, and by our continuing discussions with Colombian officials in Bogota.

There is increasing concern about drug abuse in Colombia. Last September, a national conference, which the Department supported, was held in Bogota to discuss treatment and prevention responses to the escalating problem of domestic drug abuse. In particular, there is mounting concern about the increasing use of "basuco," which is a marijuana or tobacco cigarette mixed with coca paste. Colombians are also concerned about the heavy loss of police lives to drug traffickers, the involvement of insurgent groups in drug trafficking and the attempts by narcotics traffickers to influence the political system, including the national Congress.

In 1982, Colombia produced about 67 percent of our marijuana supply, and up to 75 percent of our cocaine supply; Colombia has also been the major transit point for methaqualone entering the United States. The preliminary estimate by the National Narcotics Intelligence Consumers Committee is that Colombia's gross production of marijuana increased to a new range of 12,500 to 15,000 metric tons in 1983, and, that gross production of coca leaf increased from 5,000 to 12,800 metric tons. However, Colombian manual eradication and interdiction efforts also increased. The Committee has not yet finalized its import estimates for 1983.

With U.S. support, Colombia seized 3,310 metric tons of marijuana in 1981, a 345 percent increase over 1980, and 66 million units of methaqualone, a 380 percent increase. In 1982, Colombian officials seized another 3,409 metric tons of marijuana, 41 million units of methaqualone, and 881 kilograms of cocaine. The authorities also shut down 277 cocaine laboratories. In 1983, the Colombians seized 3,934 metric tons of marijuana and 2,800 kilograms of coca leaf, while manually eradicating 1,981 hectares of coca leaf and 1,048 hectares of cannabis cultivation. Colombia has gained substantial control of imports of base substances used to produce methaqualone, while curbing exports of this drug.

On August 11, 1983, the United States signed agreements with the Government of Bolivia, which have the long-term objective of reducing that country's coca cultivation to levels needed for legitimate purposes. The agreements include U.S. assistance in crop eradication, in developing police strike forces to establish law and order in the Chapare growing region, and in establishing a system for managing the licit coca production industry. Training of the special police forces and other outfitting has been completed. Our 1985 request of $5,500,500 is projected upon a continuation of the control efforts undertaken in 1984.

The indications are that Bolivian coca production increased by a significant amount in 1983, a result of extensive coca plantings several years ago. The 1982 NNICC estimate was that Bolivian illicit coca leaf production was in a range of 39,000 to 44,000 metric tons; the preliminary NNICC estimate is that production of coca leaf was at least at that level in 1983.

Implementation of the U.S. supported crop control program in Peru was not begun until April 1983; an estimated 703 hectares of coca were eradicated last year. This activity is pursuant to an August 1981, agreement with Peru on a coca eradication project which would be undertaken concurrent with a five-year rural development program sponsored by the Agency for

International Development. The Department has budgeted $3,500,000 for FY 1985, when the agreement calls for eradication of an additional 4,000 hectares. The budget also includes support for Peruvian narcotics enforcement agencies.

The NNICC preliminary estimate is that illicit coca cultivation in Peru in 1983 was at least at the 1982 level of 36,000 metric tons, with total production of about 50,000 metric tons. The Peruvian government has estimated total production as high as 60,000 metric tons.

The Department is requesting $8,900,000 to support Mexico's narcotic control programs. Mexico once supplied the bulk of the heroin imported into this country, but a U.S.-supported Mexican aerial eradication program has substantially reduced heroin production from its high levels in the mid-Seventies. In response to government control efforts, traffickers are attempting to expand, camouflage and diversify cultivation. The Mexican Attorney General's Office reports increased levels of opium poppy and cannabis eradication in 1983; the U.S. assisted program eradicated 2,472 hectares of opium poppy in 1983, compared to 1,211 hectares in 1982, and, 2,674 hectares of cannabis compared to 886 hectares in 1982.

The Department is also requesting $1,000,000 a Latin American and Caribbean Regional Program. U.S. law enforcement agencies, including the Drug Enforcement Administration, U.S. Customs and the U.S. Coast Guard are continuing an effort to halt the flow of drugs from Latin America to the United States. INM contributes to this effort by supporting selected law enforcement anti-narcotic activities.

Southwest Asia Summary

More than half of the heroin entering the United States is refined from Southwest Asian opium. Because we do not have agreements with Iran and Afghanistan, for reasons unrelated to narcotics control, U.S. efforts center on Pakistan as a producer, refiner and transit point of opium and heroin.

A combination of drought, low prices, government pressure, and U.S. and U.N. assisted rural development programs have reduced Pakistani opium production, which peaked in 1979 at an estimated 800 metric tons, to 45-60 metric tons in 1983. However, raw opium continues to flow into Pakistani heroin laboratories from Afghanistan, where 1983 opium production is estimated at 400-575 metric tons.

The $2.0 million requested for Pakistan narcotics control in FY 1985 provides continued support for the reduction of poppy cultivation and for enforcement efforts against heroin processing and trafficking. By 1982, the Government had eliminated opium poppy cultivaton in the "settled" areas of the Northwest Frontier Province, except Gadoon. In 1982, the first of a series of agreements was signed with the Pakistani government to curb opium poppy cultivation and end heroin production in the "merged" areas of the NWFP. The government eradicated opium poppy in the Buner area in 1982 - the first such effort in a "merged" area. In early 1982 the GOP seized a heroin laboratory in the NWFP - for the first time since 1978 - overcoming armed tribal resistance. Beginning in late November 1982, tribal leaders oversaw the surrender to authorities of equipment from 41 other labs in the Khyber Agency.

The agreement is that Pakistan will enforce the poppy ban in areas where developmental assistance is provided. The INM-funded rural development project initiated in the Malakand Agency of the NWFP is designed to encourage farmers to adopt alternative crops and income sources and to provide infrastructure support in neglected areas, so as to facilitate the enforcement of the Pakistani ban against opium poppy cultivation. Reports indicate that acreage under opium poppy cultivation in the area of the Malakand Agency Development Project has declined substantially from the 1981-82 crop year, as a result of government enforcement efforts, inducements to cultivate alternative cash crops, as well as depressed opium prices. The program intention is to eliminate remaining opium poppy cultivation in the Malakand during the 1984-85 season.

The Malakand was but one of several key growing areas in Pakistan; the goal is enforcement of the Pakistani ban throughout the NWFP growing areas. In FY 1983 USAID began a similar narcotics related development project in the Gadoon-Amazi area; this area was estimated to account for about half of the 1982-83 opium production, and should be opium free in the 1986-87 crop year. Discussions have begun on approaches to poppy control in remaining "merged" areas like the Dir. In late 1983, the Government announced it was extending its narcotics laws into the "tribal" areas, the source of as much as 20 percent of Pakistani opium production. Pakistan has also accepted "poppy clauses" which commit the government to keep appropriate USAID economic assistance project areas free of opium cultivation.

The Bureau continues commodity and training assistance to Pakistani narcotics enforcement agencies to upgrade their capabilities.

While controlling its own opium production, Turkey remains a key transit center for Southwest Asian opium and heroin, and we request $900,000 to upgrade its enforcement capabilities.

Southeast Asia Summary

The amount of heroin entering the United States from Southeast Asia was estimated by the NNICC at 14 percent of the total consumed in our country in 1982. The Golden Triangle produced 707 tons of opium in the 1982 crop year and production is estimated at the 670 metric ton level for 1983. Preliminary NNICC estimates are that Burmese production was at the 600 metric ton level for both 1982 and 1983, but, in 1983, Lao production declined from 50 to 35 metric tons, while Thai production declined from 57 to 35 metric tons. However, Thai cultivation may increase in 1984. Southeast Asian traffickers are attempting to capture greater shares of the U.S. and other heroin markets.

The Department's priority in its discussions with these governments is on crop control. However, the regional program must include interdiction and suppression of heroin labs as well as crop control -- because we cannot operate a crop control program in Laos; and most poppy growing areas of Burma remain outside of government control.

The Royal Thai Government has mounted sizeable military operations since January 1982 against the Shan United Army, the principal trafficking group on the Thai-Burmese border, and is continuing the pressure against it and other illicit drug trafficking groups with narcotics-targeted military companies permanently deployed in the area. These actions have disrupted trafficking and refining activities. The Government has also been effective in reducing the availability of precursor chemicals used in converting opium to heroin, which contributed to reduced production of heroin and morphine base; however, these chemicals are increasingly available from other sources in the region. We will encourage tighter controls throughout the region on precursor chemicals.

The Department will continue to support crop control related development assistance projects when there is a concurrent Thai commitment to crop control. While the RTG has not yet eradicated opium poppy in areas where it has received crop substitution assistance, nor established a national policy on eradication, the Thai have begun, with U.S. assistance, Civilian-Police-Military command projects to curtail cultivation as part of a program of transitional assistance to selected villages. The Department has budgeted $2,800,000 for Thailand.

The $5,000,000 budgeted for Burma will increase support for the Burmese Air Force's capability to airlift ground forces engaged in poppy eradication and interdiction operations, expand training programs, and improve telecommunications. The Burmese report increased opium seizures (6 metric tons) and manual opium poppy destruction (equivalent of 44 metric tons) in 1983, including eradication in areas under the control of the Burmese Communist Party. The Burmese also destroyed 9 heroin laboratories in 1983.

INTERNATIONAL ORGANIZATIONS

Since its founding in 1971 with United States sponsorship, the United Nations Fund for Drug Abuse Control has been a vehicle for implementation of crop control, enforcement and demand reduction programs. The Fund has carried out projects in some areas when the United States could not because of political or other considerations. In other areas, its work complements that of the United States and other bilateral projects, with the additional benefit of diffusing the political character of drug control. Major donors to the Fund recently reached a consensus with the Fund's management that all UNFDAC development projects will contain drug control enforcement provisions, and that such economic assistance be linked to commitments by recipient governments to eliminate illicit narcotics crops within a specified time. The Department has budgeted $2.7 million as the U.S. contribution to UNFDAC in FY 1985.

The Department has urged greater drug control contributions and diplomatic efforts by Australia, Canada, Japan, New Zealand and Saudia Arabia, as well as by European nations, with emphasis on crop control in both Asian sectors and European support for an UNFDAC coca control program. The latter objective was significantly achieved in 1983 when the Government of Italy pledged $40 million over five years to UNFDAC to support coca control programs in South America.

SUMMARY

In sum, the Department is pursuing the Administration strategy of increasing crop control and interdiction in the source countries. The requested increase for Fiscal Year 1985 centers on the coca and marijuana threat from South America, while expanding the efforts to reduce the influx of heroin from Southwest and Southeast Asia. In addition, the Department is stepping up its diplomatic and financial efforts to increase multilateral contributions to U.N. programs which can result in more universally supported projects.

NATIONAL NARCOTICS BORDER INTERDICTION SYSTEM

Senator KASTEN. The Vice President has a task force he has gotten involved with in terms of trying to deal with the drug problem.

First of all, what is the organization he is working with; how does that relate to what you are doing? How are all of you coordinated with the Coast Guard and the other military groups in and around Florida, the Caribbean, and the Atlantic.

Mr. DICARLO. That started with the establishment of the south Florida task force early in 1982. It was centered on south Florida, and under the leadership of the Vice President, the various assets were brought together. With Congress amending the posse comitatus legislation, the Department of Defense was able to be included in that operation.

That south Florida task force concept has been expanded to include other areas of the United States. It is now called the National Narcotics Border Interdiction System, or NNBIS; the south Florida task force is a portion of that program. There are various offices of NNBIS. One is located in Miami; one in New Orleans; a third in El Paso; one in Long Beach, Calif.; another in Chicago; and the last one in New York City.

What is being attempted is to have someone, in this case the Vice President, look to the assets of the Department of Defense, the Coast Guard, Customs, and see if he can bring these assets together. Each of those agencies is included in the NNBIS operation. State is also a member of NNBIS.

When the south Florida task force was established, the task of the Secretary of State, which is also part of that operation, was to deal with the production areas of South America. We were directed to concentrate on the efforts that we are presenting here, particularly the crop control effort in those areas.

We also participate in other ways. For example, we are considering new assistance to the Bahamas in order to have that government better able to assist the U.S. Air Force and the Drug Enforcement Administration in Operation BAT. We participate in that manner.

INTERDICTION EFFORT BY DOMESTIC AGENCIES

Senator KASTEN. It just seems to me that there is a lot of overlap and duplication. You are not in the interdiction business at all, and the Vice President's task force is?

Mr. DiCarlo. No.

Senator Kasten. When that south Florida task force came up, why wasn't it simply under your bureau?

Mr. DiCarlo. Because interdiction is done by domestic agencies and this is largely a domestic effort. It is interdiction at the border of the United States. Our responsibilities are overseas, in establishing programs which primarily assist other governments, enabling them to control the crop, and enabling them to interdict in their own country.

Senator Kasten. Within that country.

Mr. DiCarlo. Yes; within that country.

Senator Kasten. Once it gets out of that country, you are not involved.

Mr. DiCarlo. We do not fund domestic agencies that protect the borders of the United States. The task force concept is an attempt to try to bring together those agencies and coordinate the activities under one roof.

EXPANSION OF SOUTH FLORIDA TASK FORCE CONCEPT

Senator Kasten. It just seems to me that we have a whole lot of different groups operating, and it is complicated in terms of trying to figure out how it is all coordinated.

The south Florida task force has now been expanded to the east coast?

Mr. DiCarlo. No; the south Florida task force has one jurisdiction within NNBIS. Because of the success of the south Florida task force, the concept was expanded to other areas, so that we have additional groups protecting various portions of the borders, and their jurisdictions differ.

CONTRIBUTION TO THE U.N. FUND FOR DRUG ABUSE CONTROL

Senator Kasten. In the report which accompanied the 1984 appropriations legislation, this committee specifically instructed you to apply $500,000 of the reductions that we made on the 1984 request to the proposed contribution to the U.N. Fund for Drug Abuse Control. Your justification material for fiscal year 1985, however, shows a contribution to the U.N. fund of $2.5 million, which was the entire request.

According to the reprograming procedures, and this is stated in the Senate report, which says, "In addition, any matters specifically deleted by the committee in this report, shall be deemed not to have been justified for purposes of reprograming requirements."

Has the committee received a reprograming request for an additional $500,000 for the U.N. Fund?

Mr. DiCarlo. We have not done that as yet, sir.

Senator Kasten. Have you, in fact, provided the U.N. Fund with $2.5 million.

Mr. DiCarlo. Not yet, sir.

Senator Kasten. Would it be your intention, then, to follow the committee instructions and to provide the U.N. Fund with $2 million, and not $2.5 million?

Mr. DiCarlo. We certainly will, sir, and we will come to the committee before any other action is taken. We will comply with the statute. We think, on the subject of the United Nations, that great progress has been made, and it becomes almost essential that the United States also follow through. That is why we are asking for an additional $2.7 million this year.

We are making great strides there. We have other governments making major donations. As I mentioned in my statement, the Government of Italy is now coming in with $8 million a year over the next 5-year period, for a total of $40 million. We are now attempting to induce other governments to follow suit, and we think we are making a great deal of progress in this area. I think for the United States not to, at least, come in with the figures we have mentioned may hurt that particular cause.

CURRENT PIPELINE OF COUNTRY PROGRAMS COMPARED TO 1983

Senator Kasten. What is the extent of the current pipeline of your country programs, broken down by country? What kind of backlog do you have?

Mr. DiCarlo. We have some of those figures here, which can be readily available.

Senator Kasten. I am interested also in how that pipeline compares to a year ago.

Mr. Van Wert. Let me make a general statement, and then let me supply country by country for the record.

Since 1972, the Foreign Assistance Act has provided, and there has been obligated, $250 million. Of that amount, the total amount, we have right at this moment, not counting fiscal year 1984 money, approximately $12 million that is in the pipeline, that is not subobligated. Approximately $8 of that $12 million is fiscal year 1983 money.

It should be noted that most of our project agreements are obligated late in the fiscal year, late in the third quarter or in the fourth quarter. Most of them are late in the third quarter. So that it is not unusual for there to be a 6- to 9-month lag time. In essence, $4 million is in the pipeline prior to the 1983 moneys. I will supply for the record country-by-country amounts.

Senator Kasten. How does this compare in general with last year?

Mr. Van Wert. For instance, in fiscal year 1982 versus 1983, for fiscal year 1982 and prior year funds in the 12 months during fiscal year 1983, we brought down the pipeline from $12.8 million down to $5.1 million. So there was roughly $7 million in terms of flow. Obviously, with the new project agreements being obligated, there is also buildup.

So it is constant movement and activity. For instance, in Bolivia, we went from $1.9 million down to $700,000. I can give you the figures from September 30 to September 30 as a comparison point.

Senator Kasten. It would be helpful if you could provide that for the record.

[The information follows:]

INTERNATIONAL NARCOTICS MATTERS
Pipeline Recap
FY 1982 and Prior Year

Country	as of 9/30/82	as of 9/30/83
Bolivia	$1,872	$ 691
Brazil	308	16
Burma	1,677	--
Colombia	1,750	406
Mexico	1,914	1,034
Pakistan	2,452	735
Peru	2,046	2,190
Thailand	855	--
Turkey	--	7
TOTAL	12,874	5,079

INTERNATIONAL NARCOTICS MATTERS
Pipeline Recap
As of 12/31/83

Country	Fiscal Year	Unsubobligated Pipeline
Bolivia	FY 83	$1,339
	PY	623
		1,962
Brazil	FY 83	67
	PY	16
		83
Burma	FY 83	2,917
	PY	6
		2,923
Colombia	FY 83	864
	PY	413
		1,277
Mexico	FY 83	262
	PY	953
		1,215
Pakistan	FY 83	1,200
	PY	410
		1,610
Peru	FY 83	1,387
	PY	1,777
		3,164
Thailand	FY 83	181
	PY	--
		181
Turkey	FY 83	50
	PY	4
		54
RECAP TOTAL	FY 83	8,267
	PY	4,202
TOTAL		12,469

NEGOTIATIONS WITH THE GOVERNMENT OF COLOMBIA

Senator KASTEN. Mr. DiCarlo, you are again requesting a significant increase in the program in Colombia. We talked about Colombia a year ago. Again I understand that this year the Colombian program is, in part at least, contingent upon an agreement with the Government of Colombia.

Last year we discussed the likelihood of getting an agreement, and you told us quite directly and optimistically that you were going to be able to negotiate an agreement, at least that is what I understood you to say. Is there any reason to believe that we are going to be more successful this year, and what are the main stumbling blocks in terms of trying to work with the Colombian Government?

Mr. DICARLO. First, I think what I stated last year was that we hoped to conclude an agreement, and if the agreement was not concluded, we would not spend the funds. That is the statement that I made to the committee last year. I believe it was this committee that stated in its report on the 1984 Senate foreign assistance bill that it would eliminate those moneys from our budget, but in the event an agreement was concluded, the committee's stated intention was to provide those funds necessary to meet the financial arrangements contained in the agreement.

As I mentioned in my opening statement, we have been negotiating with the Colombians. The Colombians are concerned with what they see as possible environmental risks involved in an aerial herbicidal eradication program. We had experts in from Colombia to the United States who visited with us, in addition to visiting Members of Congress, and they collected information.

It is our information, as announced by the Colombian press in December, that they would be conducting environmental tests on the spraying program very shortly. It is hoped that the avenue mentioned in the committee's fiscal year 1984 report for providing necessary funds to meet the financial arrangements of a signed agreement is still open.

CUBAN SUPPORT OF ILLICIT DRUG TRAFFIC

Senator KASTEN. There have been a number of references in the media about Cuban support of illicit drug traffic. What can you tell us about Cuban support of illicit drug traffic?

Specifically, what are you doing in terms of trying to deal with the Cuban problem, if in fact there is one, and what specific evidence is there which does link the Cubans to the illicit drug traffic?

Mr. DICARLO. I can give you no further information than that provided by the regional bureau. We are actively engaged in monitoring information on this problem. We know of the indictment of several Cuban officials in drug trafficking. We know of the involvement of the Colombian trafficker in the arms for narcotics deal which has been testified to before the Congress. Beyond those facts, my bureau is not directly involved with Cuba.

SUBMITTED QUESTIONS

Senator KASTEN. We have some additional questions which we will submit for the record, and I think there are going to be some questions from other members of the committee.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DECONCINI

DIPLOMACY IN DRUGS

Senator DeConcini: Mr. DiCarlo, as you know, Senator Hawkins and I were successful in getting our so-called "Diplomacy in Drugs" amendment adopted as part of your authorization bill last session. It is now law and I understand that you have made your first report to the Congress under P.L. 98-164, Section 1003. That section of the law says, among other things, that U.S. assistance to source countries may be cut off by the President if those countries fail to take adequate steps to prevent narcotics traffic to the United States. The Secretary of the Treasury shall also direct our international financial representatives to vote against any loan or other use of international banking funds for source countries that fail to take steps to stop drug trafficking to the United States.

Give us three specific, concrete pieces of evidence that, since the enactment of P.L. 98-164 in November of last year, major narcotics source countries have launched major, aggressive new policies for attacking drug trafficking to meet the requirements of the new Act.

Mr. DiCarlo: P.L. 98-164 was passed four months ago. During that time progress in narcotics control has been achieved or continued in a number of priority countries.

For example: The Government of Pakistan enforced its law in the Malakand Agency by plowing up hundreds of acres of land cultivated in opium poppy, despite the vigorous opposition of thousands of farmers. Burma and Thailand maintained anti-refinery and opium poppy eradication actions during the 1983/84 harvest period. In our hemisphere, Colombia announced its decision to test various herbicides for use in eradicating cannabis and coca, giving us a concrete basis for hope that a decision to embark on eradication programs will come soon. Eradication of cannabis and opium poppy in Mexico meanwhile accelerated to rates roughly double those in 1983.

However, it would be misleading to say that these actions occurred as a result of the legislation, or that major, aggressive new policies have been adopted solely to meet the requirements of the Act. The Department has maintained active discussion with every current narcotics producing country that is a source for the United States drug market, and, believing that every source country could do more in control and enforcement, has consistently urged each government to adopt continuously progressive control policies and programs.

The principal requirement of the amended Act is for the submission of a detailed analysis of illicit narcotics production by major source countries. We believe that the legislation serves as a very valuable reiteration of Congressional concern and makes clear the priority which the U.S. Government attaches to cooperation and achievement in narcotics control. Moreover, the amendment has aided in our dialogue with source country governments by clearly linking production estimates with control objectives in the reporting requirements.

INTERNATIONAL NARCOTICS CONTROL BUDGET

Senator DeConcini: You are requesting $50,217,000 for international narcotics control programs next year -- an increase of about $9 million or 22 percent over FY 1984 and $13.7 million or 37 percent over FY 1983 funding levels. Yet, despite these rather substantial jumps in funding over three years, your February 1st report to the Foreign Relations Committee seems to indicate that the increased funding is not having a significant effect on illicit narcotics production. For example, funding for Bolivia more than tripled between FY 1983 and FY 1984, yet coca leaf production remained the same over those two years. INC funding for Peru between FY 1983 and FY 1984 increased 66 percent yet Peruvian production of illicit coca leaf production in Colombia skyrocketed by 156 percent in two years.

Can you explain why there does not appear to be a correlation between the level of INC assistance and appreciable reductions in production of illicit narcotics in some of these source countries?

Mr. DiCarlo: It is important, first, to establish certain facts about INM budgets. Our actual budget for FY 1982 was $35,053,000; our actual budget for FY 1983 was $36,534,000; our estimated budget for FY 1984 was $41,200,000. The latter was the first year in which INM had received a significant increase since 1979. Moreover, Congress reduced our FY 1984 request from $53,030,000 to $41,200,000. For the most part, the FY 1984 funds that were allocated have not been obligated. The FY 1985 funds have not yet been authorized or appropriated.

It is inappropriate to relate funding authorized for FY 1984, and that requested for FY 1985, to estimated narcotics production in 1982-83. The increased production cited in the question is based on data for 1982 and 1983 reported in our recently submitted International Narcotics Control Strategy Report. For the most part, the increases in production preceded the anticipated increases in outlays. The objective supported by the outlays is to stem this production. Thus, it is premature to talk about "substantial jumps" in funding over the three years cited in the question.

The budget increases obtained or sought for Bolivia, Colombia and Peru are in large part conditioned on crop eradication programs. However, agreements were not obtained with Bolivia until last August. Since then, emphasis has been upon creating the necessary law enforcement organizations and project agencies necessary to establish a governmental presence, and law and order, in the Chapare project area.

The Government of Colombia is about to test herbicides on cannabis and coca, preliminary to a decision on large-scale eradication actions. Until then, U.S. assistance supports interdiction and manual eradication programs; the Government of Colombia is well aware of the belief in many quarters that manual programs are not sufficient to control illicit cultivation. The Colombians have consistently increased their interdiction and manual eradication efforts; most notably, the National Police recently raided 10-14 cocaine laboratories and 10 metric tons of cocaine hydrochloride and base.

In Peru, the budget increase supports continuation of an eradication program that was begun less than a year ago. Seven hundred hectares were destroyed in 1983, and a goal of 4,000 hectares has been set for 1984.

THE CARIBBEAN

Senator DeConcini: I continue to be rather astonished as to why only a small percentage of your INC program is targeted at the Caribbean, especially Jamaica and the Bahamas -- two of the most active, overt drug transshipment countries in the world. Your February 1st report shows that Jamaican production of marijuana has increased rather dramatically between 1982 and 1983, yet you annually spend only about 1 to 2 percent of your total INC budget on Caribbean regional drug problem areas. The Bahamas are undoubtedly the hottest transshipment spot between South America and the U.S. mainland, yet, aside from helping in a small way with Operation BAT (Bahamian-Turks-Caicos Island effort), the Bahamas seem to be the stepchild of your INC program.

Why does the program continue to place such little emphasis on this red-hot drug trafficking area that is only a short boat ride away from our shores?

Mr. DiCarlo: U.S. Government actions in the Caribbean are determined on the basis of several factors, including the indicated volume of traffic coming through the various passasges in the region; the need to maintain flexibility of resources to respond to changes in trafficking patterns; and the appropriate venue for response.

The Bahamas

The Bahamas has been a significant transit route for drugs coming to the United States. However, that traffic has fluctuated, as traffickers have reacted to U.S. and other enforcement efforts. Last October, the Drug Enforcement Administration was estimating that 10 to 15 percent of U.S. cocaine imports and 10 to 35 percent of marijuana imports were transiting the Bahamas or Bahamian waters, well dowm from earlier estimates of trafficking concentrations in that area.

There are substantial interdiction programs focused on that problem, the bulk of which are appropriately financed by domestic law enforcement agencies which operate from U.S. land and coastal areas. Bureau (INM) assistance to the Bahamas is targetted on facilitating that Government's ability to cooperate with our agencies, such as in Operation BAT.

We disagree with the assessment that Operation BAT is only helping in a "small way". Operation BAT is an effective, bilateral anti-narcotics effort, with extensive resources, which has achieved some significant reductions in the flow of drugs through the Bahamas to the United States and disrupting trafficking patterns. The report we filed with Congress last

October showed that, in the period May 1 to September 15, 1983, OpBat resulted in the seizure of 1,243 pounds of cocaine and 113,260 pounds of marijuana, as well as 42 arrests and the confiscation of numerous boats, aircraft and other commodities.

The report on the Bahamas which we filed with the House Task Force on International Narcotics Control is attached.

We believe that OpBAT can be more effective through its extension (with the approval of the Bahamian government) and by enhancing its capabilities in three areas: communications; detection; and interception. Our requested budget includes funds to provide an enhanced communications system to the Government of the Bahamas.

We must continue to have a commitment from the Bahamian government in order for the program to be effective and successful. We plan to work in a cooperative effort with Bahamian law enforcement authorities to obtain the best possible results.

Jamaica

U.S. assistance to Jamaica is responsive to the existing opportunities for drug control cooperation. The Department's anti-narcotics priority is on crop control; the Jamaican Government to date has sought and received assistance targetted on interdiction, our secondary priority. The Government has indicated that it will pursue a more aggressive eradication and interdiction program, but, for political reasons, has not agreed to a program involving U.S. crop control assistance. We have offered to assist a cannabis eradication program.

MEXICO

Senator DeConcini: According to your latest report to the Foreign Relations Committees, production of marijuana in Mexico almost doubled between 1982 and 1983. Our Appropriations Subcommittee held a hearing in Phoenix last year where testimony revealed that Mexico is apparently back in the marijuana and brown heroin business, despite attempts by the new government to crack down on drug trafficking. You plan to spend $8.9 million on Mexico next year -- an increase of about $400,000 or 5 percent over 1984 levels.

Besides helping Mexico to operate and maintain its air fleet, what other steps is your shop taking to assist the Mexican Government drive out drug traffickers in that country? And what is the status of earlier talks about a joint U.S.-Mexico BAT-type operation in Mexico?

Mr. DiCarlo: The National Narcotics Intelligence Consumers Committee, through its production subcommittee, is attempting to improve production estimates for all source countries, including Mexico. The 1983 data for Mexico in the International Narcotics Control Strategy Report (INCSR) reflect efforts by traffickers to diversify their fields to less accessible, often smaller sites. The preliminary estimate is that marijuana production, which was about 750 metric tons in 1982, was within a range of 700-1400 metric tons in 1983. Production may have remained level, or, at worst, could have doubled. The preliminary estimate is that net opium poppy production and heroin production rose slightly in 1983 to the level experienced in 1981.

The INCSR also shows, however, that Government of Mexico eradication and interdiction strategies were changed to meet these new challenges by the traffickers. The report shows that the Mexican Government reported eradication of 2,472 hectares of opium poppy in 1983, double the 1982 estimate, and eradicated 2,666 hectares of cannabis, three times the 1982 level.

While supporting efforts to increase the efficiency of the eradication air fleet, the Department has introduced new technology in a high performance spray plane and spray boom. The U.S. and the Mexican Governments are presently evaluating field eradication tests of the Thrush fixed-wing aircraft and a new spray boom. If these tests prove successful, integration of new equipment into the Mexican narcotics eradication campaign could help reduce the flow of narcotics and further discourage opium cultivation.

The State Department, along with the Vice President's National Narcotics Border Interdiction System Group, which includes as members DEA and Customs, is discussing with the Mexican Attorney General's office new ways to improve law enforcement cooperation along the U.S.-Mexico border. The Department's Bureau for International Narcotics Matters also holds quarterly meetings with the Mexican Attorney General's office to review the Mexican narcotics eradication campaign. The last meeting was held January 26-27, 1984.

The U.S and the Mexican Governments have also agreed to increase the exchange of information on narcotics traffickers.

A BAT-type operation would not be appropriate in Mexico because the Government of Mexico has its own aircraft. The Mexican Attorney General's office has a fleet of 69 aircraft including helicopters. Some of these aircraft are used in the Mexican narcotics eradication campaign. The Government of Mexico has advised the United States that it is reconditioning an aircraft for narcotics surveillance purposes. However, there are ongoing discussions between the United States and Mexico concerning the possibility of additional cooperative enforcement efforts.

TRAINING

Senator DeConcini: You are budgeting about $3.6 million next year for so-called "international training", to be performed by DEA and Customs. This program helps to train drug enforcement officers in source countries. Senator Hawkins, Senator Abdnor, and the Commissioner of Customs recently visited a number of the known source countries in the Golden Triangle (Burma, Pakistan, etc.) to discuss drug eradication efforts in those countries, and I am told that the No. 1 request from drug enforcement officials in those nations was for more U.S. training.

Why are you spending only about 7 percent of your INC budget for training when training seems to be first on the "request list" of many of the major drug source countries' law enforcement people?

Mr. DiCarlo: Training is first on many foreign request lists for two reasons: first, although international narcotics control training has been provided for over ten years, there is a real and continuing need for such training because of turnovers which, ironically, are created by the advancement of the men and women who have received our training; second, training is not only desirable and often hard-to-obtain in many of these countries, but it is also the easiest form of assistance to request. It requires little commitment to follow-up actions on the part of the requesting country, and, for most of the recipient countries, the training is provided at no cost.

A very considerable amount of training has already been provided. Since initiation of the International Narcotics Control Training Program, over 25,000 foreign enforcement officials have been trained under the Foreign Assistance Act by DEA and Customs. Some of the major program countries have had literally hundreds of their officials trained. Through the end of FY 1983, for example, Thailand had 1,889 officials trained in DEA and Customs courses, Colombia had 1,446, Peru 1,385, Bolivia 884, Mexico 852, Turkey 720, and Pakistan 679.

We have learned that providing training is not a short-term task. Trainees do not always return to narcotics work and remain there indefinitely. Indeed, their newly acquired skills are sometimes the key to promotion out of the field within a few years. Some countries have a deliberate rotational policy intended to minimize corruption and to bring new blood into narcotics enforcement activities every few years. As a result, the demand for training is continuous.

We have moved toward a training program which is balanced heavily toward in-country training and toward the development of training capabilities on the part of other countries. Through the end of FY 1983, a total of 761 foreign officials had received training in instructional techniques. Wherever possible, DEA and Customs attempt to make use of officers previously trained as instructors whenever an in-country course is scheduled.

Senator DeConcini: What studies have you done to show that training does or does not have a positive impact on source-country drug enforcement efforts?

Mr. DiCarlo: Evaluations of the International Narcotics Control Training Program have been conducted repeatedly over the years beginning with a 1974 assessment carried out by an officer from the Foreign Service Institute. The most recent thorough evaluation report was completed by Ambassador William I. Cargo in January 1980. Meanwhile, each course is evaluated, and a multi-agency committee continuously reviews such issues as the mix, content and length of courses; the priority countries for training; and the magnitude of the program. While these reports and reviews have pointed out the problems inherent in an open-ended training effort where we have little control over the ultimate utilization of the participants, all have endorsed continuation of the program. We are planning another evaluation effort next year and will continue to adjust our training program in light of study findings.

COLOMBIA

Senator DeConcini: There is no question that Colombia poses the most serious drug trafficking challenge to the United States. It is the biggest supplier of marijuana to the U.S. and the major cocaine processing country in the world. Your February 1st report grimly shows that Colombian production of illicit coca leaves increased by 156 percent in two years, while marijuana production jumped by over 38 percent in the same two-year span. And you INC budget for Colombia reflects the seriousness of the Colombian drug problem by nearly tripling funding for Colombia projects in FY 1985 ($3,490,000 to $10,300,000 in FY 1985).

What specific assurances do you have from the Colombian Government that this large percentage jump in INC aid will actually help make a difference? What makes you think that this big boost in INC assistance will halt both cocaine and marijuana production next year?

Mr. DiCarlo: The requested budget increase for FY 1985 is premised on achieving an agreement with the Colombian Government for a substantial, herbicidal eradication program against cannabis and coca. The intra-government and public debate on eradication, especially aerial eradication of marijuana with paraquat, has progressed steadily over the last year. Last December, the Government announced its decision to test various herbicides against cannabis and coca to determine which if any were efficient and ecologically safe, requisite to any decision on an eradication program. The National Council on Dangerous Drugs has now approved a test spraying program, and our latest information is that the equipment has been tested and the test spraying itself is imminent. In the event of a favorable decision and a request for assistance from the Government, the funds requested in our budget would be committed respectively to a carefully developed, mutually agreed program of eradication probably with annual targets. This desired program is envisioned as multi-year, given the extensiveness of cultivation and the fact that cannabis is an annual crop.

USE OF MILITARY IN DRUG CONTROL PROGRAMS IN LATIN AMERICA

Senator DeConcini: During my recent trip to Central America Commanding General of the U.S. Southern Command, General Gorman, expressed his strong opinion to me that the U.S. military should be more actively involved in drug interdiction both overseas, in Latin America, and at home. Although there may be some adjustments needed in the Posse Comitatus law to allow military involvement in drug interdiction in other countries, I agree with General Gorman that we must use our vast military assets to help crack down on drug trafficking both at home and in source countries.

What specific steps have you taken in the International Narcotics Bureau to bring the Defense Department into the international narcotics control arena? What are the specific obstacles, if any, to more actively involving the military in drug surveillance in Latin America, Central America, and other known narcotics areas?

Mr. DiCarlo: The principal assistance to the anti-narcotics effort by the military since the amendment to the Posse Comitatus Act has been the expanded resources now available to domestic law enforcement agencies and the U.S. Coast Guard. Unrelated to that law has been the continuous cooperation of the military's drug and alcohol abuse offices, particularly those in the European Command, which have supported the Department's NATO initiative and diplomatic initiative to involve European countries in the international drug control program. The Defense Intelligence Agency has accepted a role in the international narcotics intelligence collection tasking. Defense Attaches are supportive of our country programs, often providing critical cooperation in countries where the military is the drug control agency, such as in Colombia. Senior officers from SouthCom and several of our key Defense Attaches participated in the Department's March 12-14 Inter-American Narcotics Conference at San Jose.

INTELLIGENCE GATHERING MISSION OF INC

Senator DeConcini: You indicate in your February 1st Narcotics Control Strategy Report that the State Department is "both an important collector of narcotics intelligence information and the primary consumer of finished narcotics intelligence on policy-level international narcotics development." You go on to say that you are seeking enhanced coordination of intelligence activities with the CIA.

What specific role does INC play, if any, in providing time-sensitive narcotics intelligence of law enforcement agencies in the States and in known drug source and transit countries? Be specific and tell us what level of resources the Department spends on intelligence activities.

Mr. DiCarlo: Executive Order 12333, promulgated by the President on December 4, 1981, directs the Intelligence Community to collect, analyze, and disseminate intelligence on international narcotics activities. In addition the Executive Order specifies that the Director of Central Intelligence is responsible for developing procedures, approved by the Attorney General, governing the criminal narcotics intelligence activities. These provisions broadly govern Intelligence Community support to international narcotics control policy and the relationship between Intelligence Community organizations and Federal narcotics law enforcement agencies.

The Department of State's Bureau of Intelligence and Research (INR) is a member of the Intelligence Community and represents the Bureau of International Narcotics Matters (INM) in Intelligence Community fora including those of the Intelligence Community Staff and activities under the direction of the DCI's National Intelligence Officer for Narcotics. INR's Coordinator for Foreign Narcotics Intelligence coordinates closely with INM to ensure that the Department's requirements for intelligence support are registered with appropriate intelligence collectors and producers of finished intelligence.

INM has regularly scheduled meetings with other Department bureaus and representatives of the Intelligence Community to coordinate information needs and to facilitate the broadest sharing of relevant information. Although the Department's narcotics intelligence interests relate principally to policy-sensitive strategy matters -- foreign narcotics production, refining and consumption; political attitudes and integrity; government policy and will and financial flows and laundering -- it disseminates in a timely way to enforcement agencies such tactical intelligence is integral to the work of Department officers responsible for our relations with countries and organizations involved in the issue. It is difficult to compartmentalize and aggregate such time; it is estimated that in excess of eight INM and INR man-years are devoted to narcotics intelligence.

SUBCOMMITTEE RECESS

Senator KASTEN. Mr. DiCarlo, we would like to thank you for your testimony, and we look forward to working with you throughout the year.

Mr. DICARLO. Thank you very much, Mr. Chairman.

Senator KASTEN. That concludes our hearing this afternoon.

[Whereupon, at 3:15 p.m., Wednesday, March 7, the subcommittee was recessed to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 8, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten and Rudman.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF PETER McPHERSON, ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY, AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

- MARSHALL D. BROWN, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT
- ALEXANDER R. LOVE, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT
- CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT
- W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT
- JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, AGENCY FOR INTERNATIONAL DEVELOPMENT
- THOMAS ROLLIS, ASSISTANT ADMINISTRATOR FOR MANAGEMENT, AGENCY FOR INTERNATIONAL DEVELOPMENT
- NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY, AGENCY FOR INTERNATIONAL DEVELOPMENT
- EDGAR C. HARRELL, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE, AGENCY FOR INTERNATIONAL DEVELOPMENT

HEARING PROCEDURE

Senator KASTEN. The subcommittee will come to order.

Today, we continue our hearings on the administration's fiscal year 1985 and fiscal year 1984 supplemental foreign assistance request for the Agency for International Development (AID). Our witness will be Peter McPherson, the Administrator of the Agency.

Peter, I appreciate your cooperation on the change in our hearing schedule today.

As some in the audience might not know, because we have a markup in the full Appropriations Committee this afternoon at 2 p.m., we have condensed today's AID hearings into this morning.

We had planned on one set of hearings in the morning, and one set of hearings in the afternoon at 2, but because of the full committee meeting, we are going to do the entire hearing this morning. We are going to be marking up today your emergency food aid bill for Africa, and also a low-income energy assistance bill, both in the full committee at 2 o'clock.

So I have asked that we concentrate on the regional bureaus first. Let's plan on spending approximately an hour or maybe an hour and 15 minutes on the regional bureaus, and then go on to the program scheduled for this afternoon at about 11:15 or so.

We will submit technical questions, and there will probably be more of those because of time constraints, to you for the record. I know that there will be questions coming from other members of the committee who are unable to be here this morning.

It would be appreciated if you could make your statement relatively short, and that of your colleagues, so that we have more time for questions.

I am happy to have the chance to have you before our subcommittee today, and I have enjoyed working with you. Please proceed.

OPENING REMARKS OF PETER McPHERSON

Mr. McPherson. Thank you, Mr. Chairman.

As I understand it, I will make a brief statement, and then each of my colleagues will make a brief statement, then you will ask questions concerning all of the regions at one time. Is that correct?

Senator Kasten. That is correct.

Mr. McPherson. With me is Marshall Brown, who is the Acting Assistant Administrator for the Latin America and Caribbean Bureau; Ray Love, Acting Assistant Administrator for Africa; Charles Greenleaf, Assistant Administrator for Asia; and Antoinette Ford, Assistant Administrator for the Near-East Bureau.

Mr. Chairman, I am really happy to come before this committee again, because I think that we have had an especially constructive and, for AID I feel, a productive relationship with this committee.

I think of, as an example, this committee really being the prime mover in putting into the continuing resolution the deobligation and reobligation authority, which has really been the most significant management tool or change of any kind that has happened since I have been here.

I would like to congratulate you as the chairman, and the staff of the majority and minority who have just been enormously helpful to us on a day-to-day basis.

DIRECTION OF AGENCY

I have a few comments about where we are going. As you know, we have emphasized what we have called our four pillars in making changes in AID in the last few years. We have moved away from what might be called more resource transfer oriented programs into training, into policy change, and so on. Among these four pillars is one where we are emphasizing policy dialog.

POLICY DIALOG

We believe strongly that it is important to get countries to have growth oriented policies. We think, frankly, that those policies often have much more impact than what the outside assistance does. I think how much farmers are paid, for example, is one such policy, and the fact that so many countries are, in effect, discriminating against their poorest people by holding the prices the farmers receive for food substantially below market levels.

It is in that spirit that we have put into place, or we have asked Congress, for an economic policy initiative (EPI) for Africa, and in that spirit that we have placed major stress on the need for economic policy change in connection with our Central America program. We have put a lot of effort into donor coordination with the World Bank, and so forth, all looking toward this policy change emphasis.

There are a number of next steps that I think are involved here, in what I have begun to call the Policy Dialog II. We have to not only get the macro policy changes, but we have to help countries to be in a better position to actually carry on under a new set of circumstances. Training, institutional development, and so forth, are key parts of that.

SCIENCE AND TECHNOLOGY

Our next pillar is science and technology. The oral rehydration therapy that AID put money into years ago is now paying off massively. I think in future years, other administrators will say the same thing about the malaria vaccine money that we have invested in in recent times.

We need to have revolutions in health and family planning. We need to have more breakthroughs in technology and agriculture, and a fair amount of money is going into that kind of effort, which in my judgment is of enormous importance to the Third World in the future.

INSTITUTIONAL BUILDING

The third pillar has been institutional building encompassing a whole range of training and institutional building.

PRIVATE SECTOR

The fourth pillar is the private sector. My view on private sector programs has evolved in the last 3 years. I initially thought of it as almost totally a program in the nature of our Private Enterprise Bureau.

While I think that type of activity is very important, I have come to see private enterprise programs in a much broader sense. We need to use market forces to, in effect, help deliver basic human needs types of activities, such as social marketing programs for contraceptives, for health programs, and so on.

Outside of major cities, governments in many countries simply are nonexistent, except for some schools, or some law and order kinds of functions. We have to look to nongovernment entities and forces to help lift growth and deliver services to people there.

Mr. Chairman, those are my brief opening remarks. Let me say again that I am very happy to be here, and all of us look forward to questions.

Perhaps Mr. Brown may want to make some introductory comments.

[The prepared statement of Mr. McPherson follows:]

PREPARED STATEMENT

M. PETER McPHERSON

ACTING DIRECTOR

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AND

ADMINISTRATOR

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, it is a pleasure to be here once again to present the Administration's annual proposal for foreign economic assistance. I want to express my appreciation to the Committee for its past support of the foreign assistance program. I look forward to our continued cooperation under your leadership.

Mr. Chairman, foreign assistance has been and continues to be in the best interests of the United States. For that reason, it has been supported by your Committee and continues to be an important part of the Administration's foreign policy.

The historical trend has been to broaden the statutory mandate for foreign assistance, since its inception with the Marshall Plan. Successive accretions include postwar reconstruction, food for peace, and basic human needs.

I have pursued an integrated approach to foreign assistance, combining growth with equity as an operational goal. My philosophy is to help others to help themselves. Foreign assistance is a limited resource. There is no substitute in the long run for development that is broadlybased and self-sustaining. Such development is not simply economic. Development requires inter alia spreading knowledge and the promotion of flourishing institutions as well as growing economies.

We have set forth four pillars or means to implement our programs. They are as follows:

(1) Policy Dialogue and Reform. This brings to the fore the notion that long-term equitable growth depends clearly on the nature of policies followed by developing countries. We seek to achieve agreement with host country governments on the nature of key policy constraints to basic development and on practical changes that can be addressed.

(2) Institutional Development. We have come to recognize that faulty institutional frameworks can impede development and that increased centralization and bureaucratization can be major obstacles to progress. Our approach, thus, has been modified to include the idea that what is sometimes required is reducing the size of institutions, decentralizing and encouraging greater reliance on private and voluntary, rather than public institutions.

(3) Technology Transfer. In this area, we are seeking dramatic breakthroughs in such areas as biomedical research, agriculture and family planning. Our emphasis is on finding solutions to age-old problems through inexpensive methods that can be widely disseminated. A.I.D. intends to be a leader in supporting new technologies.

(4) Greater Use of the Private Sector. We are also stressing the contributions that the private sector can make to solving key development problems, based on the conviction that there are many things government cannot do, or cannot do well. For example, we are testing pilot efforts for indigenous private sector involvement in areas such as the distribution of agricultural inputs and the manufacture and marketing of inputs for health and population programs.

The past three years have involved change as well as continuity in our foreign assistance. And there is progress to report:

- A.I.D. and the Department of State have worked closely to integrate our foreign assistance and our foreign policy - to relate our assistance efforts more directly to foreign policy interests. This coordination is reflected not only in the details of our budgetary requests but also in the reports of the Commission on Security and Economic Assistance (Carlucci Commission) and the National Bipartisan Commission on Central America. I shall say more about those reports in later pages of this statement.

- A.I.D. has followed through on the initiatives of President Reagan at the Cancun Conference. Presidential Task Forces have been sent to several countries, and their reports have helped guide ensuing policy dialogues. The Caribbean Basin Initiative has been launched, and its importance for our relations with that strategic region is now widely recognized.

- P.L. 480 has been more fully integrated into our development programming without diminishing its humanitarian character. Title II commodities, for example, are being used to develop cooperatives in India, to promote agriculture in Jamaica, and to help reforestation in Peru.

- Congress has increased our flexibility in responding to crises and opportunities. Particularly noteworthy is the new revolving fund which will allow A.I.D. to develop new financing mechanisms and increase its support of private sector activities. We have made a good start in this direction through the authority provided to us this year.

- A.I.D.'s voluntary family planning programs are increasingly using private sector marketing. The market reaches out to customers and localities which are not reached by governmental programs. The private sector also competes successfully with governmental programs that are free of charge, for example, in Bangladesh. The net effects are an increase in individual choice, a decrease in governmental subsidies, and an improvement in program effectiveness.

- A.I.D. has taken the lead in the dissemination of Oral Rehydration Therapy. This simple therapy promises to reduce substantially the millions of deaths of infants and small children. We recently sponsored an international conference on this therapy, and we are introducing it in social marketing systems -- private as well as public -- in several developing countries.
- A.I.D. continues to support research on an anti-malarial vaccine. This pioneering effort is increasingly successful. Clinical testing with human subjects is expected to begin in 1985. If all goes well, distribution should begin in 1990.
- We have recognized the extraordinary needs of sub-Saharan Africa and Central America. New initiatives to meet those needs are outlined in later pages of this statement. Those initiatives reflect the input of members of this Committee as well as the Commission on Security and Economic Assistance and the National Bipartisan Commission on Central America.
- A.I.D. has broadened and deepened its relations with corporations as well as universities in the United States. Corporate expertise has proven to be particularly helpful in recommending remedies for the environmental impact of some industries in developing countries. A.I.D. and universities are increasing their cooperation with the new Memorandum of Understanding and Joint Career Corps. A major effort is now underway to expand the involvement of historically black colleges and universities in our programs.
- A.I.D. has increased its training of students from developing countries in the United States. We sponsored almost 8,000 students in FY 1982, over 9,000 in FY 1983, and

over 10,000 (projected) in FY 1984. This reverses a trend of the 1970s.

- A strategic planning process was initiated two years ago, to give a sense of direction not only to our regional bureaus but also to the entire Agency. The preliminary results of that planning process are reflected in later pages of this statement. The final results are to be shared in the coming weeks with your Committee, Mr. Chairman.

- We are establishing an early warning system with the international development banks, and we are pressing in a variety of fora for more coordination with other donors. This effort recently bore fruit with the adoption of its first guidelines for donor coordination by the Development Assistance Committee of the Organization for Economic Cooperation and Development.

I am pleased to have been able to report progress in these areas, Mr. Chairman. Let me now turn to a review of the current situation.

WORLD ECONOMY

During the past year, there have been important developments which affect our program for FY 1985. First, the international economic picture is changing, with both positive and less encouraging aspects. Second, two major commissions have issued reports making important recommendations on certain aspects of our foreign assistance effort. I would like to address each of these points briefly.

At the time of my appearance before this Committee last year, I testified that nations around the world, particularly those in the Third World, were confronting serious economic problems brought on by the global recession. They had experienced a sharp decline in demand for their exports, compounded by high interest rates which increased the cost of borrowing to meet their rapidly growing balance-of-payments deficits. The result was rising levels of debt and debt servicing burdens and a decline in the level of private lending. For many of these developing countries, problems were aggravated by their own inappropriate economic policies.

Today, the situation has begun to stabilize and some of these same countries are showing hopeful signs of recovery. A number have undertaken adjustment programs, often in conjunction with the IMF, aimed at achieving a sustainable balance of payments position. For some, recovery is due in part to policy reforms which we and other donors have helped to put in place through policy dialogue efforts in the development arena.

Several recent events offer hope of sustained improvement in LDC economic performance. First, the developing countries themselves are increasingly recognizing the value of sound economic policies and the importance of adjustment programs to their long-term economic prospects. Second, economic recovery led by the United States and other developed countries began to take hold during the latter part of 1983. We can expect it to continue and spread in 1984. Third, interest rates have fallen significantly, world market oil prices have declined, and LDC commodity prices have experienced some increases. As a result of these positive trends, aided by a significant cutback in LDC imports, the balance of payments situation of the developing countries as a whole improved last year. The LDC's total balance-of-payments deficit, though still significant, was about one-third less than a couple of years ago.

The worldwide economic recovery, as it strengthens and spreads, will be important to the economic prospects of the developing countries -- particularly the middle and higher income developing countries with a greater capacity to adjust and respond to the economic opportunity provided by the recovery in the developed countries.

Even with the improvement in economic conditions, though, many developing countries, particularly the poorest, will continue to face serious economic difficulties and will continue to require substantial foreign assistance. For many of them, recovery has yet to blossom. Even in those which have begun appropriate adjustments, the first step has often required substantial reductions in domestic credit, in government development expenditures and in imports needed for investment. All of this constrains economic performance, particularly over the short run.

For the low-income countries facing severe economic problems, with limited capacity to attract or service private flows, and with extremely limited human, physical and institutional infrastructure needed to address their basic development problems, development assistance will remain critically important. Economic assistance will also be critical in helping countries avoid serious economic and political disruption while needed stabilization and adjustment programs are being undertaken. Indeed, the challenge we face is to assist the developing world to address its current economic problems while at the same time assisting in laying the foundation for long-term sustainable development. In short, there is cause for hope, but the job is far from over.

Assisting developing countries to confront these massive economic problems effectively, with the limited resources available, requires a carefully thought-out foreign assistance program, and greater support from the public than has been the case in recent years. It was for that reason that Secretary Shultz last year called for creation of the Commission on Security and Economic Assistance. He charged it with the task of reviewing the foreign assistance program and making recommendations for improving its focus and administration, and for increasing its public support.

The Commission, on which you and members of your Committee served, Mr. Chairman, has served a very useful purpose in focusing greater attention on the necessity for a strong foreign assistance program. I need not take time here to review in detail the findings and recommendations of the Commission, since members of this Committee played a very active part in their formulation. I would like to cite, however, a few of the ways in which we are moving to implement those recommendations.

The Commission called for increases in the foreign assistance budget to help meet our foreign policy objectives. It also pointed out the need for carefully integrated programs in sub-Saharan Africa, the Caribbean and Central America. In response to these recommendations as well as those of the National Bipartisan Commission on Central America, we are proposing new initiatives entailing significant increases in funding for both of these regions. I will go into that in more detail in just a moment.

Consistent with the Commission's affirmation of the importance of a total country approach to program development, over the past three years we have developed and improved upon an integrated budget process to allocate resources in each country so as to ensure the best mix of overall assistance to meet foreign policy interests. We are following the recommendations of the Commission to increase emphasis on policy reform, institutional development, technology transfer and involvement of the private sector as means of fostering development

We also are taking steps to respond to the Commission's call to increase the flexibility of the Development Assistance program and to maintain that of the Economic Support Fund. We have also sought to increase the use of P.L. 480 to meet development objectives. And we are looking at other ways in which we can follow-up on the Commission's recommendations.

SUB-SAHARAN AFRICA

Another major concern has been the tremendous challenge to stimulate strong growth in Africa. Measured by almost any indicator of development -- income, infant mortality, literacy, malnutrition or life span -- the situation in Africa is more serious than elsewhere. During the past decade the economic performance of the region has been particularly poor -- 15 countries recorded negative growth rates. Sub-Saharan Africa is the only region in the world where per capita food production has declined over the last twenty years. Moreover, the poor economic performance has been exacerbated recently by severe drought, seriously affecting food production, causing growing food shortages continent wide and widespread hunger and malnutrition. The FAO has identified 24 countries which are most seriously affected and in need of urgent emergency food aid.

To help respond to the worsening situation in Africa, we are taking several steps. One, we are allocating a larger share of our current year program to African countries -- to date we have provided 218,000 metric tons of P.L. 480 Title II food aid valued at $85 million (including ocean freight costs) in response to emergency requests. Two, because of the magnitude of the problem, we are requesting an FY 1984 P.L. 480 food aid supplemental of $90 million to augment current allocations. These steps will respond positively to today's emergency.

We also wish to address long term problems. Thus, as part of our FY 1985 request for the Development Assistance program we are seeking Congressional approval of a new Economic Policy Initiative for Africa. The Initiative is planned as a five-year, $500 million fund. For FY 1985 we are requesting an authorization and appropriation of $75 million. The purpose of this new Initiative is to foster economic policy reforms which are essential to any reversal of the current downward trend in many African countries. The resources of this special fund will be used to bolster those countries which are prepared and able to establish a comprehensive economic policy framework conducive to growth and long-term development. Resources will be used to support implementation of the reform package once promulgated. Assistance from this fund will be tied to major policy reform measures and focused predominantly on the agricultural sector. We expect that such a fund will help significantly to strengthen the policy dialogue between donors and recipients and to improve coordination among donors.

CENTRAL AMERICA

Another major development has been the recent release of the much-awaited report by the National Bipartisan Commission on Central America, chaired by former Secretary of State Kissinger. By now, many of you are familiar, I am sure, with the essentials of the Commission's findings, so I will touch on them only briefly at this time. Confirming the widely held perception of a crisis of acute proportions in a region of fundamental importance to the United States, the Commission calls for a program to meet basic human needs, help achieve peace, and promote democracy. It proposes a comprehensive approach to economic development in the region and reinvigoration of the Central American Common Market, all tied to major policy reforms. It has recommended mounting a large-scale, long-term assistance program to help stabilize the

Central American economies, rebuild infrastructure, provide trade credits and encourage rescheduling of multilateral debt. The Commission has also proposed a new organizational structure to administer a portion of the proposed program.

In response to the Commission's recommendations, we are requesting authorization of a major new program of assistance to Central America. The program's strategy concentrates on four fundamental elements: economic stabilization, creation of a basis for long-term growth, promotion of equity, and strengthened democratic institutions and respect for human rights.

Accordingly, the program's major goals are, first, to end the downward spiral of production in the region by next year. Second, over the course of the program we want to help the countries of the region achieve an annual economic growth rate of at least 6 percent, creating more than 250,000 new jobs each year through export-led growth. Third, we seek to foster an increase in agricultural production of 4 percent per year by 1989, generating an additional 80,000 jobs and increasing food availability and agroindustrial exports. Fourth, we want to see substantially greater benefits of economic growth accrue to all sectors of the populace, to better meet their basic human needs -- increased primary school enrollment, reduced infant mortality, greater availability of modern family planning services, increased low-income housing, and better access to clean water and sanitation facilities. We also want to foster the strengthening of democratic institutions, and progress toward participatory democracy and legal systems which respect human rights.

To achieve these goals, we request authorization of an $8.3 billion program of economic assistance and guarantees for Central America, to be made available over the next six years.

For the first phase of its implementation, we are requesting a supplemental appropriation of $400 million in FY 1984, including $290 million in ESF, $73 million in Development Assistance, $25 million in P.L. 480 commodities, and $12 million for other agencies and for increased A.I.D. operating expenses.

For FY 1985 we are requesting an appropriation of $1.12 billion, consisting of $641 million in ESF, $272.8 million in Development Assistance, $10 million for Housing Guaranty reserves, $120 million in P.L. 480 commodities, and $77 million for other programs and A.I.D. operating expenses, plus $600 million in guaranty authority to support private lending to the region.

As the Bipartisan Commission recommended, the assistance would be provided on a collaborative basis. Our program would be closely tied to commitments for economic and social reforms by the recipient governments.

I know that there is a major question in the minds of some with respect to the capacity of the Central American countries to absorb productively the level of assistance which we are proposing. Let me assure the Committee that this is a matter which we have considered carefully in our planning, and I would like to share with you our thinking on it.

While our program is ambitious, I am convinced that it is both essential and feasible. I believe, in fact, that a more modest program might be undercut by the political uncertainty, insurgency, low commodity prices and economic depression that now characterize the region.

First, with respect to the overall size of the program, the assistance we are proposing for FY 1985 represents less than 5 percent of the region's GNP and is less than the $1.5 billion shortfall in export earnings which have resulted from lower coffee and sugar prices and higher costs for imported oil. We have provided higher levels of aid relative to GNP in other parts of the world, like South Korea and Taiwan, and much larger amounts during the Marshall Plan.

On the issue of the management capacity of the Central American governments, while we recognize that serious deficiences do exist, we are taking several steps to prevent such problems from limiting our impact. For one thing, the largest part of the assistance will go to the private sector rather than to government programs. For another, as part of our effort we will provide substantial technical assistance and training for government officials to streamline operations and increase efficiency. Third, significant capacity for expansion is already in place since government investments and social programs have been dramatically cut back as a result of the region's financial problems.

With regard to specific bottlenecks, we recognize that aid expansion has been hindered in some areas by such problems as clogged ports or shortages of trucks to move commodities. This is simply not the case in Central America, where production has artificially shrunk as a result of economic depression. For the next several years, considerable excess capacity will exist. Over the longer term, where we can make plans to address potential bottlenecks before they arise, the need for investment is enormous. Physical infrastructure is undeveloped, health and education systems need expansion, and investment in productive capacity is essential to employ the region's growing labor force. These all require resources.

Finally, I would note that our own past experience with assistance programs in the region suggests that we can build up a larger program, given the kind of commitment to economic, social and political reform that we will seek as a precondition to such assistance. We have found that our programs have tended to be implemented fairly quickly in Central America compared to other regions of the world. Less than 20 percent of our pipeline of undisbursed funds was obligated more than three years ago and some of this was for projects where long lead times were foreseen in project design.

I believe that the central determinant of absorptive capacity is government policies. Policy reforms are crucial to effective use of our funds, and those of host countries. The key is to avoid subsidizing inefficiency and to create opportunities and incentives for private sector investment. In agriculture, adequate prices and access to land with secure titles will stimulate investment and production by the people who understand best how to do this -- the individual farmers. In industry, good policies will mobilize individual entrepreneurs to make the right decisions concerning increased employment and production. The Central American Development Organization, which we support, can be a vehicle for assuring that our assistance is indeed tied to good performance on the whole range of policies -- economic, social and political -- essential for the success of the Central America program.

The stakes are high in Central America, and the success of this effort is vital to our foreign policy interests. For it to succeed, the proposed program will require strong bipartisan Congressional support. We will welcome the opportunity to discuss with the members of this committee and others in Congress the details of the program as they are fleshed out, and to seek your guidance as to how it can best be implemented.

Let me now turn to the overall A.I.D. program.

GENERAL STRATEGY

Our programs should be aimed at overcoming the basic problems of hunger, illiteracy and lack of training, disease and premature death. We cannot, of course, assist developing nations to achieve such standards through our programs alone. Indeed, the principal impetus for surmounting these problems must come from the developing countries themselves. The programs of other donors are a critical element in achieving progress.

There are essentially six key development areas on which we are focusing A.I.D. resources. These are: first, attacking hunger; second, addressing health problems, especially the high levels of infant and child mortality in the Third World; third, addressing high rates of population growth; fourth, increasing literacy, education and training opportunities; fifth, reducing unemployment and underemployment; and sixth, improving host country financial structures. Many of these are a continuation of past efforts, but we are striving to give better focus to our efforts and to establish a clearer vision of what this Agency is, and should be, concerned with. Moreover, we are emphasizing as basic means of implementation the four pillars of Agency policy: policy reform, technology transfer, institutional development, and greater use of the private sector.

Through policy dialogue, we seek to achieve agreement with host country governments on the nature of key policy constraints to basic development and on practical changes that can be made. Right policies are essential to achieve development progress.

Institutional development, through which we strive to help create and improve the institutional capacities of the peoples of the developing countries, has been part of A.I.D.'s approach since its beginnings. Over time we have come to recognize that faulty institutional frameworks can impede development and that increased centralization and bureaucratization can be major obstacles to progress. As a result, our approach to institutional development has been modified to include the idea that sometimes what is required is decentralizing institutions rather than centralizing them, and encouraging greater reliance on private and voluntary -- rather than public -- institutions. In this regard, we will continue to strengthen our partnership with U.S. private and voluntary organizations and draw on their unique capacities in such areas as small-scale enterprise, health delivery systems and community development.

We are also stressing the contribution that the private sector and the use of market power can make to solving key development problems. We believe there are many things that government cannot do, or cannot do well. In particular we plan to test pilot efforts for private sector involvement in areas where government has often been unsuccessful -- such as distribution of agricultural inputs. We will be testing the capabilities of indigenous private sectors to manufacture and market inputs for health and population programs.

In the area of technology transfer we hope to achieve dramatic breakthroughs in such areas as biomedical research, agriculture and family planning. "New technologies" frequently connote complex, expensive applications to solve esoteric problems. But technology also may be used to find solutions to age-old problems through inexpensive methods that can be disseminated to people everywhere. An example is the breakthrough in oral rehydration therapy, which I mentioned earlier.

A.I.D. intends to be a leader in supporting the development and dissemination of such new technologies. Sustained development requires an indigenous capacity to adopt, create and apply a continuing stream of appropriate technologies to the problems of health, population growth, hunger, illiteracy, unemployment and labor productivity. Moreover their dissemination and actual utilization requires that they be economically and financially sound, capable of withstanding the test of the market.

Research thus takes on added importance and A.I.D. intends to give greater emphasis to it as a fulcrum of technological transfer. We have identified four critical research areas that will receive major A.I.D. attention in the coming years: agriculture, health, family planning, and fuelwood production and utilization.

The developments I have just outlined have had a major part in shaping our proposed program for FY 1985 and will influence the way in which that program is carried out. Let me turn now to the details of the FY 1985 request.

REQUEST

For FY 1985 we are proposing a program of $8.9 billion for foreign economic assistance, including amounts we are requesting as part of our overall proposal for Central America. In addition, to respond to several pressing requirements this year, we are requesting several FY 1984 supplemental appropriations. These include an urgent $90 million P.L. 480 Title II food aid supplemental for Africa to respond to the dire food shortage in that region, $320 million in supplementals for the multilateral banks, and a $400 million supplemental for Central America.

The Central America supplemental consists of $290.5 million for ESF, most of which is for urgently needed balance of payments support; $73 million for Functional Development Assistance and a total of $11.5 million for AID operating expenses, the Peace Corps and U.S. Information Agency.

The FY 1985 request for bilateral assistance includes $2.2 billion for Development Assistance, $3.4 billion for the Economic Support Fund, $21 million for the Trade and Development Program, and $1.3 billion in budget authority for the P.L. 480 Food for Peace program.

Our Development Assistance request includes $1.6 billion for the Functional Development Assistance accounts. Of this amount, $20 million would be allocated to the Private Enterprise Revolving Fund. The DA request also includes $97.5 million for the Sahel Development Program, $75 million for the new Economic Policy Initiative for Africa which I mentioned earlier, $10 million for support of American Schools and Hospitals Abroad, $25 million for the International Disaster Assistance program and $404 million for A.I.D. operating expenses. And it includes $34 million for the Foreign Service Retirement Fund, for which funding is already authorized.

I would like to point out that, with respect to our Development Assistance request, we are proposing a reduction in the minimum loan level required for allocation within our Functional accounts. This will give us needed flexibility in the programming of our resources and avoid the possibility of having to provide loans to any of the least developed countries such as has been required this year in Bangladesh as a result of the current loan floor.

The Economic Support Fund, consistent with the program of the past several years, has over half of its resources allocated to Israel and Egypt to continue our support for the search for peace in the Middle East. The request also includes expanded assistance to the Caribbean Basin countries to restore economic growth to this troubled region, support for continuing efforts to stem the spread of economic and political disruption in Africa, and to advance our security and development-oriented programs in Pakistan and the Philippines.

For multilateral assistance in FY 1985 we are requesting a total of $1.5 billion. This includes $1.2 billion for U.S. contributions to the multilateral development banks. The request also includes $242 million for International Organizations and Programs, of which $50 million is for support of the International Fund for Agricultural Development and $192 million is for voluntary contributions to UN development programs, including $120 million for the UN Development Program and $27 million for the UN Children's Fund.

I look forward to working with the Committee in carrying out our proposals.

LATIN AMERICA AND THE CARIBBEAN

STATEMENT OF MARSHALL D. BROWN, ACTING ASSISTANT ADMINISTRATOR FOR LATIN AMERICA AND THE CARIBBEAN, AGENCY FOR INTERNATIONAL DEVELOPMENT

FALL IN PER CAPITA INCOME

Mr. BROWN. Thank you. It is a pleasure to be here, Mr. Chairman.

I will give you a very capsulized picture of our Latin American program, and what we are trying to do. The countries of Latin America are facing a present set of challenges at the moment. They are all suffering from a very traumatic economic decline. The per capita income has fallen dramatically in many countries.

El Salvador, for example, has gone down by 35 percent in the last 3 years. Unemployment rates are increasing, and they face a very high debt service. On top of this, many face turmoil and social conflict, not only in Central America, but also in the Caribbean, such as Grenada.

To respond to this, we propose a substantial increase in our assistance program. We are asking for an additional $400 million in fiscal year 1984 supplemental, and a total of $1.12 billion in fiscal year 1985.

These increased resources will support the integral development strategy which we believe will address the root causes of economic, political, and social problems affecting our region. Our approach emphasizes three elements—economic stabilization, structural reform for long-term growth, and promotion of equity for spreading of benefits of growth.

With respect to the first element, economic stabilization, we are in that phase right now. We are supporting the IMF in their economic stabilization efforts with our balance-of-payments aid. We are supporting improved policy reform to try and arrest the decline that the countries have experienced in the recent years, to turn them around and put them on a growth path. Our assistance enables them to cushion the fall in their living standards, while they are getting their policies in place.

The second element, which is very important, is structural reform for long-term economic growth. This involves establishing the policies, the institutions and the strategies necessary to produce self-sustaining growth over the long term.

The countries need to find a new source of dynamism for their economies. They have exhausted import substitution opportunities. The prospects for their basic commodities are poor over the medium term.

EXPORT ORIENTED STRATEGY

Our analysis suggests their best hope lies in developing an export oriented strategy, one which concentrates on nontraditional exports in the agricultural sector and manufactured exports, exports to the world market and not just simply to Central America.

This also means serious policy reform to change the structure of production in these countries, to get away from import substitutions, and stress the labor intensive exports for the world market.

The third element is equity for spreading the benefits of growth. This is our more traditional, basic human needs approach where we are seeking to improve the coverage of basic education, services, health, nutrition, family planning, and housing programs.

Significant progress here requires increased government revenue, and that can only be obtained with increased economic growth. Therefore, economic growth is fundamental to the program that we are planning in our region.

POLICY CHANGES NEEDED

I want to reemphasize that economic aid alone cannot bring about development, policy change is essential: Policy change to stimulate increased export and investment, to raise literacy rate, to extend the coverage of the basic education system, and to get government out of the public enterprise business.

We believe that the time is ripe for action. The economic and political traumas of past years have convinced the countries that they have to act, they have to make the major reforms that are necessary, and we will be stressing this as a basic ingredient of our performance based strategy.

Thank you.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF MARSHALL D. BROWN

ACTING ASSISTANT ADMINISTRATOR
BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

Mr. Chairman, I am pleased to be here today to testify on our proposed program for the Latin American and Caribbean countries in FY 1985 and on the proposed supplemental program for Central America in FY 1984.

INTRODUCTION

The Latin American and Caribbean (LAC) region is experiencing a severe and prolonged economic crisis. Gross domestic product (GDP) per capita has fallen for three consecutive years and in 1983 was 10% below its 1980 level. In countries such as El Salvador, Bolivia, and Costa Rica, where per capita GDP has fallen since 1979 by 31%, 24%, and 22%, respectively, one has to speak of depression rather than recession. Already high unemployment rates are still rising, and external debt burdens remain heavy despite debt renegotiation by some countries. Fiscal problems threaten the ability of countries even to maintain existing levels of health and education services, let alone expand them to segments of their populations not currently served. This economic crisis has been aggravated by political turmoil in Central America and by severe flooding and drought in the Andean countries.

The economic outlook for the rest of the decade is not encouraging. Commodity prices remain significantly below pre-1980 levels, and the prospects for some key commodities, including coffee and bananas, are not bright. Sugar, especially important to the Dominican Republic, also faces an uncertain future. Other factors limiting growth potential for the 1980s are heavy debt service requirements, which will eat up a substantial share of the region's export earnings; the reluctance of commercial banks to make new loans and provide new trade credits; and the wariness of investors, both domestic and foreign, in the face of political uncertainties and heavy debt burdens. Debt service is an especially serious problem. Among A.I.D.-assisted countries, per capita debt is above $1,000 in Barbados, Costa Rica, Guyana, Jamaica, and Panama, and debt service exceeds 55% of total export earnings in Bolivia, Costa Rica, Ecuador, and Peru. This burden will be high in some countries throughout the 1980s, and additional debt reschedulings are likely.

The deepening economic crisis in the region is severely testing political stability and democratic institutions, which in a number of countries were fragile even before the onset of the crisis. Rising unemployment, lower incomes, and loss of hope for the future make it easier for forces hostile to U.S. interests to attract adherents. Fear that political conflicts in Central America might spread across national boundaries is deterring domestic and foreign investment throughout the Central American isthmus, making economic recovery there even more difficult. The current governments of Bolivia and Peru are attempting to preserve their democratic institutions in the face of severe political and economic strains. In Jamaica the long economic decline of the 1970s has been halted, but the inability of the country to generate a strong recovery is resulting in growing frustrations; the refusal of the main opposition party to participate in the last elections has created a politically awkward situation in this traditionally democratic country.

U.S. interests call for a major response to stimulate economic activity, to raise living standards (especially for the poor), and to create a more favorable environment for democratic institutions. There is need for significant economic assistance to the Caribbean and Andean countries as well as to those in Central America. However, it is in the latter area that our interests are being put to the greatest challenge, and thus it is that area to which we should devote substantially increased resources. In response to the recommendations of the National Bipartisan Commission on Central America (NBCCA), we are proposing that the urgent needs of this area be addressed immediately through a supplemental assistance program for FY 1984. This program, together with our Central American program for FY 1985, is being presented as a separate budget presentation. Because aid alone cannot produce development, the assistance proposed for Central American countries would be conditioned on demonstrations that the governments are committed and able to undertake fundamental economic and social reforms.

U.S. INTERESTS

The United States has major economic and security interests in Latin America and the Caribbean. The region was our second largest export market after Western Europe in 1981, purchasing $42 billion of U.S. exports. But the deterioration in its economic situation caused our exports to the region to decline sharply in 1982 and 1983, resulting in a loss of jobs and income for U.S. workers, factories, and farms. U.S. investment in the LAC region is also significant, amounting to 62% of all U.S. direct investment in developing countries. Its profitability has declined, however, and the financial position of many U.S. banks has been threatened by the inability of many LAC countries to service their loans. Another effect of the economic crisis in the LAC region--and of the political conflicts in Central America--has been increased illegal migration to the United States.

Our major security interests in the LAC region include access to Mexican and Venezuelan petroleum, to other industrial raw materials, and to the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. The region is also important to our efforts to limit the spread of nuclear weapons, the operations of international terrorist groups, the flow of illegal drugs to the United States, and the seizure of power by hostile forces. The creation of eight newly-independent nations in the Caribbean Basin during the last ten years has heightened the importance to us of countries in the region which share our concerns on issues arising in hemispheric organizations and international fora. These security interests were given dramatic expression by the U.S. Government's response to the critical situation in Central America and Grenada during the past year.

KEY DEVELOPMENT PROBLEMS

To achieve economic recovery and institute a process of rapid and sustained economic growth benefiting all sectors of society, the countries of the LAC region must overcome a number of key obstacles. While the relative importance of these problems varies from country to country, they are present to some degree in virtually all countries in the region.

1. Financial Disequilibrium. Sizable balance-of-payments and fiscal deficits have arisen from unfavorable external economic trends and from expansionist government policies in the 1970s that created large but inefficient public sectors. Excessive external borrowing created debt service obligations that are, or are feared to be, unsustainable. The result has been inflation, capital flight, and loss of external credit.

In the Andean region, Bolivia, Ecuador, and Peru all experienced inflation rates of at least 65% in 1983. Bolivia has now moved into hyperinflation, with prices rising at an annual rate of more than 1000%. Inflationary pressures are also surging in the traditionally stable Dominican Republic, where the longstanding one-to-one relationship between the peso and the dollar is threatened by a parallel market rate that now exceeds 3 pesos to the dollar.

In Central America the combination of the 1979-80 oil price increases and the commodity price declines after 1980 opened up a gap of $1.5 billion in the region's balance of payments, to which most governments responded by excessive borrowing rather than adjustment. The political turmoil resulting from the establishment of a Marxist government in Nicaragua and from internal strife in El Salvador exacerbated this economic problem, leading to cutoffs of commercial credit, capital flight, and a dropoff in foreign investment. The lack of foreign exchange resulted in a collapse of the intraregional payments system and a sharp contraction of intraregional trade. Fiscal problems were aggravated by reduced revenue due to lower production and trade and inadequate tax collection and by increased spending to expand government programs and to enable the military to cope with insurgency and threats from abroad.

2. Lack of Productive Employment Opportunities. Employment in the modern sector, especially in industry, has grown slowly in the past 20 years, largely because of economic distortions favoring the substitution of capital for labor. In agriculture, labor productivity remains low and growth rates have been disappointing. In some countries, the public sector absorbed a sizable percentage of the labor force expansion during the 1970s, but much of this employment was relatively unproductive. The need for fiscal austerity will mean that the bulk of employment growth in the foreseeable future will have to come from the private sector. Some governments will need to change policies significantly to make this possible.

In Central America, as well as in much of the Caribbean, job creation through sustained long-run economic growth will be difficult to achieve because of the poor prospects for traditional exports and the exhaustion of most import substitution possibilities. Unless some dynamic growth can be generated by structural change that allows diversification of production and exports, productive employment opportunities for the region's rapidly growing labor force will not be available.

3. Inadequate Spread of the Benefits of Growth. Progress over the past two decades in broadening the availability of education, health services, and housing has been substantial. However, large segments of the population throughout the region continue to lack adequate access to education and health services, and the current economic crisis threatens the continued progress that would promote political

and social stability. To maintain the momentum of improvements in this area, governments will need major increases in efficiency.

Within the LAC region, the incidence of poverty continues to be greatest in Haiti, and the progress in improving living standards there in the 1970s has suffered a setback as per capita GDP has fallen by about 7% since 1980. The incidence of poverty remains high in the Andean countries, and particularly in Bolivia and Peru the poverty problem has been aggravated by a sharp economic decline caused by a combination of natural disasters, the world recession of 1980-82, and misguided economic policies.

In Central America, a serious problem in three countries--Guatemala, El Salvador, and in some respects Nicaragua--is the limited capacity or willingness of government institutions to address the issues that are at the core of the development process. Unless the governments of these countries come to grips with basic equity, social justice and participation issues in a manner that addresses the concerns of all sectors of their societies, their political stability--and therefore that of the entire region--will continue to be threatened. Honduras, the poorest country in the region, has so far managed to avoid the divisive internal conflicts of the three countries mentioned above, but rapid improvement in the quality of life for all sectors of the population is an important requirement for preventing the emergence of such a situation.

Related to the lack of equity in some Central American countries is the lack of strong legal systems, the existence of unrepresentative political systems and an overall lack of concern for basic human rights. Costa Rica demonstrates that democratic political systems are indeed possible in the region and that they can play a crucial role in maintaining political stability and promoting broad development goals. Representative systems cannot be built overnight, nor can they be imposed from outside. But outside assistance can support indigenous efforts in this area.

4. Rapid Population Growth. Despite a reduction in the region's population growth rate from an average of 2.8% per year in the 1960s to about 2.3% at present, population growth is still very rapid in most of the countries in which A.I.D. has programs. Such high rates of growth strain countries' capacities to provide adequate nutrition, education, health care, and employment opportunities for their populations. In addition, increased population pressures on limited natural resources have resulted in serious soil erosion and other environmental degradation in many areas.

STRATEGY AND GOALS

Regional Overview and Plan

A.I.D.'s strategy for dealing with the key development problems outlined above involves three broad approaches: (1) support for economic stabilization efforts in the near term, (2) support for basic structural reforms to permit a resumption of economic growth along more efficient lines, and (3) support for long-term development programs based on equity, democratic institutions, respect for human rights, and a broad-based participation in the development process. This strategy places more emphasis on improving the policy framework for growth and productivity than was the case of our programs in the late 1970s, but it is still largely targeted on the needs of the less advantaged populations, particularly by emphasizing productive employment opportunities along with increased access to health care, education, and other social services. This growth-with-equity strategy, designed to bring about broad-based national development, is described in more detail in the LAC Bureau's Regional Strategic Plan.

Central America: Multiyear Goals and Funding Request

The magnitude of the crisis in Central America requires a firm U.S. commitment and a bold response. We are therefore requesting authorization of $8.3 billion in economic assistance and guarantees for Central America, to be available over the next six years; and a supplemental appropriation of $400 million in FY 1984 and a request for a $1,120 million appropriation in FY 1985, representing the first phase of implementation of this program. In the face of large federal deficits and urgent domestic priorities, such a request requires compelling justification. We believe that the report of the Bipartisan Commission provides this. The situation is so alarming, the Commission concluded, that "whatever the short-term costs of acting now, they are far less than the long-term costs of not acting now." If the proposed assistance can capture the imagination and energies of the people of Central America, we believe that it can support a dramatic turnaround in the development situation of the region and eliminate a potentially serious threat to U.S. national security.

Our major goals for the five-year program are the following:

- an end to the downward spiral in production by 1985;
- achievement of an economic growth rate of at least 6% per year in the region within six years, producing more than 250,000 jobs annually through export-led growth;
- agricultural production increasing by 4% per year by 1989, generating 80,000 jobs per year and increasing both food availability and agroindustrial exports;
- substantially greater participation of all sectors of the Central American population in the benefits of economic growth, including:
  - an increase in primary school enrollments to 95% of the school-aged population by 1989 from the current 84%;
  - a reduction in the rate of primary-level grade repeaters by 50% in all countries, and an increase in primary-level completion rates from 40% to 80% in Guatemala, Honduras and El Salvador, and from 80% to 95% in Costa Rica, Panama and Belize by 1990;
  - a reduction in infant mortality from the current rate of 65 per thousand to 55 per thousand by 1989;
  - provision of modern family planning services to almost 600,000 couples, increasing contraceptive

usage by 50% by 1989 and reducing birth rates by 1% each year;

-- an increase of 25% in the rate of construction of low-income housing; and

-- a 25% increase in the coverage of water and sewerage services by 1989; and

-- a strengthening of democratic institutions in countries where they already exist, and substantial progress toward participatory democracy and legal systems that respect individual human rights in the others.

As proposed by the Bipartisan Commission, assistance to Central America would be provided as part of a multiyear and collaborative approach in which our aid would be closely tied to commitments for economic and social reforms by the recipient governments. Our procedures for implementation will reflect a greater emphasis on more flexible instruments for assistance, greater collaboration with governments and private groups in the region, and streamlined administration. An advisory committee, consisting of highly experienced and respected representatives of Central America and the United States, will monitor and assess country performance against both economic and political goals. This approach follows the conclusion by the Bipartisan Commission that an integrated program attacking the four major problems of the area--economic instability, poor economic growth, poor equity performance, and weak political and legal systems--is essential to resolution of the region's problems.

South America and the Caribbean

For our South American and Caribbean programs, we are not asking for any changes in authorization and appropriations procedures. Nevertheless, many of the economic problems faced by these countries are the same as those confronting the Central American countries, and this calls for similar strategies. In the near term, especially in the Caribbean, much of our assistance will be in support of economic stabilization efforts. We will also seek to support structural reforms, both in macroeconomic policies and in sectoral policies, particularly in agriculture.

Agricultural and rural development programs, the largest element in our Development Assistance program for South America and the Caribbean, will support equity objectives by focusing on small commercial and potentially commercial farmers, and other Development Assistance activities will seek to alleviate other dimensions of the poverty problem. Substantial PL 480 programs are proposed for Bolivia and Peru, where flooding and drought have caused long-term damage to productive capacity as well as short-term production losses. Sizable PL 480 programs are also proposed for Haiti, the Dominican Republic, and Jamaica.

Elements of the Strategy

1. Stabilization. A.I.D. is actively encouraging governments in the LAC region to control their marcoeconomic problems through International Monetary Fund-supported

stabilization programs. Most have such programs, which provide foreign exchange resources that help cushion declines in economic activity while countries are laying the groundwork for economic recovery. A.I.D. has supported such efforts through Economic Support Fund (ESF) assistance, which provides both an incentive for countries to take stabilization action and a means to do so without incurring unsustainable social and political stress. If an IMF program is not feasible in particular circumstances, we shall establish our own performance targets for macroeconomic variables. Our goal is to have the LAC countries managing their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. The need for this type of assistance is particularly great at this time, especially in Central America and the Caribbean.

In Central America, both the time period required for economic stabilization and the level of resources required will depend significantly upon external events. At present, we expect this phase to require three to five years and $3.1 billion in U.S. Government assistance through FY 1989. This will include $2.5 billion in appropriated ESF, $0.1 billion in P.L. 480 commodities, and $0.5 billion in private trade credits guaranteed by the U.S. Government. For FY 1984 we are requesting supplemental ESF funds of $272.5 million in support of economic stabilization in Central America. Our FY 1985 ESF request in support of this objective is for $541 million. The bulk of the funds will be provided bilaterally, but a portion will be channeled through Central American regional institutions to promote restoration of intraregional trade. The assistance will enable the region to increase imports of raw materials and capital goods needed to increase production and employment over the near term. However, local-currency generations from this dollar assistance will be used in most cases to support other A.I.D. economic assistance goals, e.g., production credit, labor-intensive construction of economic infrastructure and the most pressing basic human needs in health, education and housing.

For selected countries in the Caribbean, $142 million in ESF assistance is requested for FY 1985 in support of stabilization objectives. This will provide part of the balance-of-payments support needed to assist these countries in overcoming continued foreign exchange shortages due to limited export prospects and reduced access to private capital markets. Foreign exchange provided by ESF will enable productive enterprises to import needed materials. Local currency generations will support the credit requirements of these enterprises, finance key public service and infrastructure projects, and support efforts of private voluntary organizations (PVOs), cooperatives, and similar groups to meet basic human needs.

2. Structural Reforms for Sustained Long-Term Growth. Rapid and sustained economic growth must be based on an expansion of the productive sectors through policies which stimulate an economically efficient allocation of resources. Economic growth will be faster, more employment-intensive, and more equitable if countries follow a development strategy based on exports to external markets rather than one built around import substitution in highly protected domestic markets. Export expansion permits rapid growth of the imported materials and capital goods needed to generate higher productivity and increased living standards. This is especially important to small economies, like most of those we are assisting.

Although the enactment by Congress of the trade provisions of the Caribbean Basin Initiative (CBI) should provide increased export opportunities to this area, expansion of nontraditional exports also requires structural reforms, such as modification of overvalued exchange rates, tariff structures that promote inefficiency and saddle potential exporters with high-cost inputs, and policies which artifically overprice labor and underprice capital. Better policies and a stable political environment can generate a real growth rate of nontraditional exports of 20% a year by the end of the decade. This would result in a large increase in jobs.

The main elements of our strategy for achieving export growth and the associated increases in income and employment are:

-- continuing our dialogue with cooperating countries on the policy reforms which are needed;

-- supporting the greater commercialization of agriculture, the sector employing the greatest number of people;

-- increasing the availability of credit for production in agriculture and industry, particularly small industry;

-- providing technical assistance and training for small business operators;

-- assisting investment and export promotion and strengthening private-sector organizations; and

-- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private entrepreneurs.

The productive activities we will be supporting are not directed only at production for export. A.I.D.'s overall food and agriculture strategy, for example, has the twin objectives of increasing production and income to enable people to meet their basic need for food. Throughout the LAC region, we are focusing on the productive efforts of small commercial and potentially commercial farmers. This strategy offers the greatest promise for raising the incomes of landless and near-landless rural residents through the broad-based rural development set in motion as small farmers' production and incomes rise. We plan to achieve an overall annual agricultural production growth rate averaging 3.3% during 1983-1988 and reaching at least 4% by 1988.

In South America and the Caribbean, agriculture, rural development, and nutrition will continue to absorb the largest share of our Development Assistance resources, accounting for 44% of our efforts in FY 1985. New projects to begin include support for agricultural marketing and agribusiness in Bolivia; agricultural research and extension in the Dominican Republic; agricultural policy and planning in Ecuador; and agricultural restructuring in Jamaica. Agroindustrial and other industrial exports will be stimulated by projects funded from the selected development activities account. New projects will include a private-sector Export Promotion project in Bolivia and an Export and Investment Promotion project in the Dominican Republic.

In Central America we believe that our approach can restore relatively rapid economic growth to the region (6% real growth per year) within five years. We propose funding of

$3.9 billion for this purpose through FY 1989, including $1.7 billion in appropriated funds ($0.9 billion ESF, $0.4 billion DA, and $0.4 billion P.L. 480), $0.8 billion in local currency counterpart generations from economic stabilization assistance, and up to $1.3 billion in guarantees and insurance. The latter will include trade credits provided through A.I.D. and the Export-Import Bank and increased insurance coverage by the Overseas Private Investment Corporation. In FY 1984, $10 million in Supplemental ESF resources and $7.5 million in Supplemental DA funds will support long-term growth objectives. In FY 1985 these objectives will be supported with $80 million in ESF resources and $86.9 million in DA funds.

3. Promoting Equity and Broad-Based Development. The restoration of satisfactory economic growth is not an adequate answer to the development problem. The pattern of economic growth and the distribution of social services must contribute to improvements in the quality of life of less advantaged groups. We have already noted that access to employment and other sources of productivity growth, such as modern agricultural technology and improved inputs, provide a means of achieving equity goals in a manner that also stimulates rapid economic growth. But programs in a number of other areas are also needed:

a. Education and Human Resources Development. Our activities will focus on the quality and availability of primary education until literacy rates of more than 50% are achieved. Where illiteracy is no longer a major impediment to development, the emphasis will be on skills training, management training, and the use of cost-effective outreach mechanisms such as telecommunications and mass media, paraprofessionals, and nonformal adult education. Emphasis will be on activities which generate employment and stimulate production by the private sector. For Central America we are requesting $10 million in FY 1984 Supplemental funds and $64 million in FY 1985. Another $34.3 million is requested in FY 1985 for education and human resources development in South America and the Caribbean.

In Central America, we propose to expand access to primary education to nearly 100% of the school-age population and to increase the relevance and quality of the education in order to reduce grade repetition and dropouts. Efforts to increase literacy will include support both for indigenous public institutions and for use of Peace Corps volunteers to supplement their efforts. We also propose to provide 10,000 scholarships over the next five years for study in the United States. There is a need not only to expand greatly the number and quality of development professionals in public sector institutions but also to increase the number of such professionals who will promote democratic values and thus challenge the views of those trained under scholarships from communist-bloc countries, which have increased significantly in recent years. The scholarship program will be administered by A.I.D. and the United States Information Agency (U.S.I.A.).

In South America and the Caribbean, education and human resources development programs will emphasize rural education, skills training, and administrative and managerial training to improve the efficiency of both the public and private sectors. New activities include support for management training in Bolivia and Jamaica, policy analysis training and the establishment of a Center for Dominican Governmental Affairs in the Dominican Republic, and vocational training in Haiti.

b. Health. Our efforts will emphasize achievement of financial viability by supporting cost recovery for services provided and by developing private sector channels to provide greater access to health services. We hope to reduce infant and child mortality by 15% over the next five years. Over time our emphasis will shift from primary care to disease control and water and sanitation services which can significantly improve work force productivity. For Central America our request is for $18 million in FY 1984 Supplemental funds and $40 million in FY 1985. The request for South America and the Caribbean in FY 1985 is for $18.6 million.

In Central America we will devote increased efforts to control of malaria and other vector-borne diseases, dissemination of oral rehydration therapy, and training of nurses and other health workers. We will address nutrition issues through increased an expansion of our technical assistance and education efforts, as well as through increased food aid. The Peace Corps will cooperate in implementing our health and nutrition programs, and U.S.I.A. will help in translating and disseminating educational materials.

Health sector activities in South America and the Caribbean will support ongoing projects to improve health services management, to expand rural water and sanitation systems, to support private sector health-care initiatives, and to implement other measures to provide low-cost service delivery, especially primary health care for the rural and urban poor. A Targeted Disease Control project will be initiated in Haiti.

c. Family Planning. We will address the population growth problem primarily through private sector mechanisms, both commercial and voluntary, while relying on other donors to provide assistance to public sector institutions. We seek to increase contraceptive prevalence significantly in five years by doubling the number of users. For Central America we are requesting $5 million in FY 1984 Supplemental funds and $15 million in FY 1985. Our FY 1985 request for South America and the Caribbean is for $11.3 million.

d. Access to Land. In some countries, improved access to land may be the most rapid way to provide opportunity to poor groups. Colonization of new lands can provide part of the solution, but some form of land reform may be a necessary element of a program in this sector. This would be the case particularly in Guatemala where lack of access to land in the central highlands, where the bulk of the Indian population lives, is a severe constraint to improved living standards. Our program will support efforts to increase land availability for poor rural families through support for colonization, legal reforms to increase security of land titles, and long-term financing for land purchase.

e. Shelter. Much of the population of the LAC region lives in substandard housing which lacks water, sewerage and electricity services. Although remedying this problem will require both decades and massive financial resources, we can make progress through support for institutional improvements in housing finance mechanisms and by innovative programs such as "sites and services" projects that can mobilize the labor resources of beneficiary families at low cost. Our Housing Guaranty program will be used to channel private funds toward the solution of the severe shortage of low- and moderate-income housing while it generates substantial employment.

f. Refugees and Displaced Persons. In Central America, the tragedy of forced dislocation due to political violence has exacerbated the problem of poverty. In some cases this has led to the spillover of migrants to other countries, including the United States. In El Salvador and Guatemala it has resulted in the internal dislocation of hundreds of thousands of people now living in deprived circumstances. We propose to expand our program of assistance for displaced persons to meet their cash income, health, nutritional, and educational needs in the near term and to assist in relocation or return to their homes as conditions permit. The State Department will be responsible for administering the refugee program, while A.I.D. will assist the displaced persons.

g. Democratic Institutions and Human Rights. The ultimate purpose of economic development is increased human welfare. If we succeed in generating economic growth in Central America without broadening the respect for basic human values, we not only will fail to achieve our purpose but will be sowing the seeds of a future crisis when internal conflict becomes violent revolution. It is important to realize, however, that we cannot determine the path chosen by the people of Central America. But we can provide our moral and financial support to those countries which choose democratic processes and which respect human rights. As a key element in providing the economic assistance under this program, we propose to take into account the situation in each country that responds to commitments regarding free elections, independence of the judiciary system, and respect for individual rights.

We also plan specific activities in several areas to support this element of our strategy. First, we will support strengthening of the administration of justice through technical assistance, training and material support for the courts, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools and bar associations. Second, we will provide assistance to improve the administration of elections. Finally, as discussed earlier, broader understanding of democratic values will be pursued through scholarships and educational materials on democracy and democratic institutions provided by the U.S.I.A.

To directly support equity and broad-based participation in the Central American countries, we are proposing $3.4 billion in assistance through FY 1989. This figure includes $1.7 billion in dollar funds appropriated for equity goals (including $1.4 billion in DA, $0.1 billion in P.L. 480 Title II commodities, and $0.2 billion in programs administered by the Peace Corps and the State Department), $0.2 billion in Housing Guaranty funds, and $1.2 billion in local currency counterpart funds from ESF and P.L. 480 assistance provided for balance-of-payments support. It also includes $0.3 billion for democracy and human rights initiatives. The $3.9 billion provided to support long-term growth could also be included in this category because it supports the productive jobs and increased incomes that are the most powerful vehicle in the long term for meeting basic needs.

The FY 1984 Supplemental request to support equity and participation objectives in Central America is for $65.5 million in DA funds. The FY 1985 request is for $185.9 million in DA funds.

IMPLEMENTATION OF THE CENTRAL AMERICA PROGRAM

New Approaches. The emphasis on working closely with host governments to assure that appropriate policies are adopted, both in the economic sphere and with respect to political and human rights, requires that our assistance program include two departures from past practices.

First, we intend to encourage the establishment of an organization representing the public and private (including business and labor) sectors of participating Central American countries to serve as a forum for a frank and open dialogue on Central American political, economic and social development. CADO would not, as we envision it, be a separate bureaucracy but would meet periodically and have a minimum staff necessary to achieve the purposes set out below. It would be structured so as to have labor representation, with the expectation that the experience with the Tripartite model of the International Labor Organization will be heavily drawn on. While the specific makeup and functions of CADO will need to be developed in consultation with the Central Americans, our current view is that it should:

-- establish goals and targets for economic, political and social development;

-- recommend country performance criteria;

-- evaluate external assistance needs and recommend resource mobilization actions;

-- measure country performance against goals and targets, and recommend corrective action where countries fall short; and

-- be influential in affecting the level and structure of U.S. bilateral assistance for Central America.

Second, we believe that greater flexibility is needed with respect to use of the funds than has existed in the past. The requirement that all funds appropriated in each fiscal year be obligated in the same year can require us to make difficult choices between approving programs where a recipient government has not yet taken needed steps or of losing the funds entirely. The earmarking of funds by country has reduced our ability to encourage governments to take necessary policy reforms. We therefore request that the Congress provide two-year appropriations for this program and that appropriations not be made with country-level earmarkings.

Third, we seek to increase the role played in the development process by private voluntary organizations to the maximum extent feasible. In implementing the CBI we have developed closer relationships with these organizations than previously and have provided substantial funding to them. We intend to continue this effort.

Absorptive Capacity. The large-scale program proposed raises questions regarding the capacity of the region to absorb such an increase. We have concluded that such capacity does indeed exist. First, the annual level of resources provided under the program, at about 5% of the total product of the region, is lower than that provided by donors in a number of other cases. Second, the countries of the region are now operating at very low levels of production, and considerable excess capacity exists in the private sector. As our aid helps restore production, we will be providing the institution-building help and technical assistance that will prevent the emergence of bottlenecks in the future. Third, most of our resources will flow through private-sector agencies rather than governments.

Support Costs. The implementation of the proposed Central American program will require an increase in support costs for A.I.D. This includes additional direct-hire employees, plus increased operating expenses associated with the program. We propose additional funding of $2.5 million in FY 1984 and $6 million in FY 1985 to support this program.

SUMMARY

Let me briefly summarize now the resources we are requesting. The FY 1984 Supplemental request, all of which is for Central America, is for:

-- $290 million of Economic Support Funds (ESF);

-- $ 73 million in Development Assistance (DA);

-- $ 25 million in P.L. 480 commodities; and

-- $ 12 million in other agency programs and increased operating expenses.

In FY 1985, we are seeking appropriation of:

-- $793 million of ESF ($641 million for Central America, $150 million for the Caribbean, and $2 million for LAC regional programs);

-- $460 million in DA ($273 million for Central America, $114 million for the Caribbean, $52 million for South America, and $21 million for LAC regional programs);

-- $267 million in P.L. 480 commodities ($120 million for Central America, $80 million for the Caribbean, and $67 million for South America);

-- $ 77 million for other agency programs and operating expenses for Central America; and

-- $650 million in guaranty authority, $600 million of it for Central America, to support private lending to the region.

Given the nature of the crisis in Central America, and the importance to U.S. interests that it be overcome, we are proposing for these countries that the full amount necessary for the entire period from FY 1984 through FY 1989 be authorized in FY 1984. This would provide our friends with the assurance they need to take difficult actions to deal with the crisis. We are also requesting that the ESF and DA appropriations in FY 1984 and FY 1985 be made available until expended to allow more effective application of conditionality to these programs. These are significant departures, Mr. Chairman, from the authorization and appropriation procedures of the past. But we cannot leave any doubt about our determination to see the Central American countries achieve rapid, sustained, and equitable economic growth within a democratic environment compatible with our interests.

Thank you.

AFRICA

STATEMENT OF ALEXANDER R. LOVE, DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA, AGENCY FOR INTERNATIONAL DEVELOPMENT

FOOD CRISIS IN AFRICA

Mr. LOVE. Thank you, Mr. Chairman. I am pleased to be here today.

With recent concerns over the emergency food crisis in Sub-Saharan Africa, our strategy with regard to short- and long-term goals is receiving increasing attention. I look forward to giving you a brief overview of the program, as well as answering any questions that you might have on the fiscal year 1985 request.

AID's fiscal year 1985 program for Africa is about $1 billion. There are three distinct components in the package—development assistance of $430 million, which includes the new $75 million economic policy initiative; an economic support contribution of $391 million; and Public Law 480 assistance for both humanitarian and developmental purposes of $231 million.

The two major objectives in our program are promotion of economic stability and improved food production and distribution. Although some of our efforts at promoting economic stability involve short-term assistance with economic support funds, the long-term program utilizes development assistance funds to focus on increases in agricultural production, changes in policy to complement economic growth, and the development of responsive and viable market mechanisms. In addition, we use a portion of our food assistance program to assist in the promotion of our development objectives through the monetization of commodities under title I and title III projects, as well as under title II, section 206.

We believe that two of the most important components of a successful effort in Africa would be human resource development and the acceleration of private sector growth nurtured through the free enterprise system.

We favor getting ineffective and cumbersome bureaucracies out of the market system, thus paving the way for increased farm-gate prices and a food production chain that is responsive to demand, rather than artificial incentives and controls.

There is little doubt that the development challenges in Africa present one of AID's most arduous tasks. Economic activity on the continent, particularly in the Sub-Saharan region, is stagnant. Population growth averages about 3 percent per year, while food production increases are less than 2 percent per year.

This year's food emergency will recur unless major reforms are undertaken in Africa, in both the policy and the production areas. These will be required to lead the continent to food self-reliance in the future.

SHORT- AND LONG-TERM TARGETS

Our strategy is very straightforward. We have divided our goals into short- and long-term targets.

In the short term we seek to, No. 1, promote and support a policy environment conducive to agricultural development; increase direct investment in agriculture; further the development and utilization of appropriate, hopefully higher yielding, cost-effective technologies; support infrastructure and institutional development, including transportation and storage facilities; train more people; and promote private sector development and political stability.

In the long term, we expect to aggressively promote agricultural diversification, ready use of irrigation, development of agro-industry, and off-farm rural employment, as well as an effective and responsive indigenous African research capacity.

Unfortunately, the major returns on our African investment will take time, and to some extent they will depend on factors beyond our control such as weather, world markets, and political stability throughout the rest of the world.

However, we are convinced that the program outlined here today, and in our fiscal year 1985 presentation will reinvigorate African development, and will assist in satisfying today's needs, as well as tomorrow's expectations.

Thank you.

[The prepared statement of Mr. Love follows:]

PREPARED STATEMENT OF ALEXANDER R. LOVE

DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am pleased to be here today and to have the opportunity to present to you the Agency's U.S. development assistance program for Africa for fiscal year 1985.

We propose a program level of slightly more than one billion dollars for Africa in FY 1985. This total includes development assistance, economic support and PL 480.

$430.2 million proposed for development assistance includes:

--$150.0 million for agriculture and rural development;

--$ 46.2 million for education and human resource development;

--$27.2 million for health initiatives;

--$20.2 million for selected development activities, primarily energy and the private sector

--$14.3 million for population planning;

--$97.5 million for the Sahel, primarily for agriculture, institution building, health and human resource development; and

--$75.0 million for the new Economic Policy Initiative which I will discuss in more detail later in the presentation.

In addition to development assistance we request $391.5 million in Economic Support Funds to promote economic and political stability in strategically vulnerable countries throughout Africa.

In PL 480 we request a total of $231.7 million: $148.5 million for Title I, including $48.0 million for Title III, and $83.2 million for Title II. Emergency food aid for drought affected countries would be allocated from the worldwide Title II reserve and would be additive to the requested levels.

Africa's Deepening Economic Crisis

The deterioration in Africa's economic position, which began in the 1970s, continues unabated. The level of economic activity has remained virtually unchanged during 1981 and 1982. Since population growth rates average about three percent per year, this translates into a decline in per capita incomes. A serious weakening of the fiscal situation and balance of payments position has exacerbated the stagnant economic situation. Debt service payments continue to claim increasing shares of export earnings as foreign exchange reserves dry up and arrearages mount. Indeed, almost 20 countries in sub-Saharan Africa currently have resorted to massive IMF assistance programs to avoid collapse. Many of the same countries have also required large debt reschedulings.

What has happened that put a continent as vast and diverse as Africa in such a difficult and seemingly intractable situation? The causes are complex and varied. Specific country case studies indicate that there are some common threads.

First, we find external causes. Oil price increases, the global economic slowdown which reduced demand for Africa's exports, the recurrence of drought and declining terms of trade provide part of the explanation. But African countries to lack the flexibility to adjust to an ever-evolving global economic environment.

Part of this problem stems from historical causes. At independence Africa inherited a much lower human resource, institutional, technical and infrastructural base than other parts of the world. Thus these countries can mount only a limited technical response. Progress has occurred - two thirds of African children now attend primary school, life expectancy has increased by 21 percent and the number of miles of all weather roads has tripled (a "transportation revolution" according to the World Bank). Even with this progress, Africa needs to accomplish much more before sustainable development becomes a reality. Africa faces a long-term task.

The World Bank, in a recent report, commented that "the immediate and continuing economic crisis in Africa is overwhelmingly a production crisis ... which has arisen from the widespread adoption of structures of prices and incomes which have provided inappropriate production incentives." Low prices for the benefit of the consumer too often mean uneconomic prices for producers and, invariably, shortages.

Comparable efforts to provide both adequate producer prices and low consumer prices result in unsustainable budget deficits. Rather than allow prices to rise to stimulate production, governments often resort to unsustainable subsidized imports. Fundamental economic policy reforms are required. Without such changes, Africa will continue to stagnate.

To address the problems we encounter in Africa we have sharpened the focus of the limited resources at hand. We will direct our efforts towards achieving two objectives that we consider key to Africa's development process: (1) economic stabilization and (2) improved food production and distribution.

The strategy we employ to achieve our development objectives emphasizes macroeconomic and sectoral policy reform, private sector development, donor coordination and institutional strengthening. Policy reforms that bring about structural adjustments include policies that provide incentives to small farmers and put an end to government monopolies. Accelerated economic growth requires more efficient use of existing human resources by widening the scope for individual economic decision making and permitting the development of a dynamic private sector.

The private sector will then, along with a greater emphasis on human resource development, contribute to strengthening the weak institutional base that exists in much of Africa. Working in unison with other donors we expect to reduce the ever present duplication of effort and strengthen achievement of our common goals for development.

We must direct all the vehicles of U.S. foreign assistance to address the panoply of Africa's problems. Conventional projects continue as a valuable form of U.S. assistance in view of the limited planning, project identification and implementation capacity of most African governments. Over the long term such assistance, largely provided through the DA account, remains the most appropriate instrument for building the human resource, technical and institutional bases that can lead to sustained prosperity in Africa.

In the shorter term ESF monies can prove particularly effective in overcoming temporary balance of payments difficulties. The ESF account provides an obvious mechanism for supporting stabilization efforts and macroeconomic policy reforms, often undertaken in conjunction with an IMF agreement. Similarly, we have made a concerted effort to design and use PL 480 aid to achieve both balance of payments support and longer run development objectives. But we also recognize that these programs have legislative bases and purposes that differ from the DA program.

Development Assistance Program

For the longer term and for sustained development we will continue efforts in our direct bi-lateral action programs. For these programs we request $355 million in development assistance funds including $97.5 million for the Sahel. These sector specific programs will continue to pursue development by emphasizing private sector participation, institutional strengthening, technology transfers and improved donor coordination. We believe that the long neglected private sector, if encouraged, can strengthen significantly the weak institutional base we now find in Africa. Job creation and increased incomes represent two immediate results of expanding private enterprise activity.

Agriculture continues central to our long term strategy. In addressing our basic objective to improve food production and distribution, the sector will absorb nearly 50 percent of development assistance resources. Our efforts in agriculture contribute directly to the alleviation of poverty and hunger of Africans. AID will concentrate on development of smallholder agriculture as the most productive element in that sector.

Our agricultural program in FY 1985 includes creation of national policies and programs that give African farmers incentives to expand agricultural output, especially food. For example, in the Sahel AID will continue the policy dialogue surrounding two major topics--cereals sector policy and recurrent costs to assure food availability and affordibility. Policy reforms such as increasing farm gate prices, reducing input subsidies, reducing the role of parastatals and lowering consumer price subsidies now move forward in countries throughout the Sahel. AID will continue to encouraged and support them in 1985 and the Economic Policy Initiative will accelerate substantially this movement.

Developing self-sustaining agricultural institutions remains a principle objective. Africa needs such institutions to provide appropriate technology, inputs and services for effective production and distribution of food products. In Sudan, the mission will design and begin implementing an agriculture sector grant in FY 1985 to address inadequate crop storage facilities and financial contraints to crop storage. Improved feeder roads will link production areas to market outlets. In Uganda, a new cooperative development project will strengthen the ability of cooperative societies and district unions to diversify their commercial activities and to expand credit and marketing facilities.

Countries need to improve agricultural institutions and human resource development to enhance prospects for more effective farmer participation in the development process. Kenya will begin implementation in FY 1985 of a project to strengthen the management capacity and performance of institutions committed to increasing smallholder farm production.

In FY 1985, construction will begin on Cameroon's agricultural university. With AID's assistance the university, modeled on the U.S. Land Grant system, will train and graduate agriculture sector managers, researchers, planners and teachers. In addition we will place emphasis on human resource development as a key element to building and reinforcing African institutions in all sectors.

In building up agricultural research, the Agency plays the leadership role in coordinating agricultural research in Africa. In cooperation with other donors we support four major regional research efforts. The multinational Cooperation for Development in Africa (CDA) has become the most important. The other regional efforts in research include programs with SADCC (Southern African Development Co-ordination Conference) on farming systems research in eastern and southern Africa, and the Organization for African Unity sponsored SAFGRAD (Semi-Arid Food Grain Research and Development) project in west Africa.

In the area of education, we will help expand Africa's human resource capacity by concentrating our efforts on improving primary school systems, nonformal educational programs, and selected indigenous institutes. We will also continue our participant training programs which provide training opportunities for Africans to study in the United States.

We seek to overcome the traditionally poor quality instruction offered in rural areas in Africa and to improve the availability of education to rural Africans. To improve instruction the Rural Information System project in Liberia uses the radio to broadcast educational programs. In 1985 additional assistance will help Liberia to improve the quality of its primary school instruction.

African countries also need training at the middle and upper levels of management in both public and private sectors. Selected indigenous institutes have become the primary vehicles for providing such training. Accordingly, we have put a priority on assisting such institutes to develop their capacity to provide instruction, and to undertake research, policy analysis, and planning the human resource sector.

In FY 1985 Swaziland and Niger plan projects to address this need. In Swaziland, the project will support the creation and operation of a National Training Council to identify training requirements in both the public and private sectors. The project will also support training a nucleus of people required to perform key manpower planning functions. In Niger in FY 1984 we developed a project to improve the skills of mid-level government and private sector personnel in accounting management and business administration. In FY 1985 Niger will initiate an associated activity which will assist the government to plan its human resource needs for development.

Human resource development continues as a cornerstone of our development strategy. We emphasize it in all sector specific programs. We will place particular emphasis on the improving management capabilities in development related institutions -- again to strengthen the institutional base in Africa.

In population and health we will continue our effort to provide the rural population access to adequate, essential preventive and basic curative services. Our investment in these sectors consists of improved management, planning, training and technology transfers. These investments will enable host countries to reach not only the productive agricultural laborers, both men and women, but also to reach the future generation of workers who will sustain economic growth in

Africa. We pay special attention to the problem of cost of services and the ability of governments and individuals to pay them.

Through donor coodination we remain committed to combatting aggressively childhood communicable diseases throughout Africa. As coordinator of the Cooperation for Development in Africa (CDA) Health Technical Committee, we will continue to expand field activities in immunization, malaria treatment and oral rehydration. By the end of 1985 the program will reach an estimated 2.6 million African children under five years of age.

Sahel Development Program

The Sahel Development Program is A.I.D.'s regional response to overcoming the serious economic constraints plaguing eight African countries which share similar problems and developmental objectives. U.S. interests in the Sahel are primarily humanitarian. We also recognize the political and economic importance of this region. By strengthening Sahelian economies, we will enhance regional political stability and preclude Libyan expansionism. A.I.D.'s program in the Sahel has evolved from emergency relief in the face of a catastrophic drought in the early 70's to a combination of project and non-project assistance aimed at comprehensive institution building supportive of national food staple productivity in order to ultimately achieve (1) food self-sufficiency on a regional basis by the end of the century, (2) environmental stabilization, and (3) long-term economic growth.

Most of A.I.D.'s assistance to the Sahel is channeled through bilateral projects which address area needs. However, about one-third of the program involves regional projects, which require a pooling of resources among various other donors, address problems common to Sahelian countries and which are most susceptible to a regional solution, e.g. river basin development.

By the year 2000, the Sahel population will reach 50 million and will require 11.5 million tons of cereal food annually for adequate nutrition. Meeting the long-term strategy goals of food self-sufficiency, environmental improvement and long-term economic growth will require that development efforts in the Sahel involve both rainfed and irrigation projects. To meet consumption requirements by the year 2000, output of rainfed agriculture must increase by two percent annually between 1980 and 2000, and irrigated production must increase by 12,500 to 37,500 hectares per year depending on the degree of self-sufficiency sought and the rate of growth realized in rainfed productivity. Fundamental policy reform, accompanied by the expansion of the human and physical infrastructure and research will be the key to improving rainfed agriculture. River basin development projects will provide the analytical and regional resource planning framework needed for development of water control and storage in irrigation - a prerequisite to major expansion in irrigated agriculture.

Evaluations of the first generation of A.I.D. projects (1976-1981) have demonstrated that serious constraints to development will not be easily overcome and that the Sahel Development Program must maintain a long-term, systematic approach with increased emphasis on policy reform, human resource development, institution building, improvements in the region's data base and planning capabilities, agricultural research and infrastructure.

While our basic priorities remain unchanged, already a new assistance dimension has been added to address short term balance-of-payment problems. In Senegal, Niger and Chad, ESF non-project assistance is being provided to assist these countries to stabilize their fragile economies.

In FY 1985, of a requested $97.5 million in Sahel Development Program funds, our assistance will continue to focus on rainfed agriculture ($47 million), which has received less than 10 percent of all donor assistance during recent years. However, the United States will also support the concurrent development of irrigated agriculture ($13 million) through river basin development in Senegal, Niger, Mauritania and Mali. A.I.D. assistance will also continue in ecology ($2 million) and forestry ($5.5 million); this assistance is aimed at the preservation of the region's natural resource base and increasing the production, supply and conservation of the region's principal source of energy, firewood. Finally, A.I.D. will continue initiatives reflecting priority concerns in institution building ($20.7 million), health ($8.4 million) and population ($0.9 million).

Economic Support Fund

The Economic Support Fund (ESF), plays a vital role in our short-term strategy for development. In areas where the U.S. has special strategic interests, these funds provide the means for negotiating selective broad macroeconomic policy reform with host country governments. This dialogue facilitates a review of policies which relate directly to structural adjustments necessary for longer-term, sustained economic stabilization. Our requested funding level of $391.5 million in ESF will enable us to provide support to about 14 countries and to the Southern Africa Regional Program during FY 1985.

In several countries, Kenya, Niger, Senegal, Somalia and Sudan, the ESF programs will support economic recovery and policy reform efforts. The ESF-financed commodity import program in Zaire will support the agro-industrial sector. In Zimbabwe, the ESF program will support on-going sector programs in education and agriculture. In Djibouti and Botswana, ESF funds support development activities in rural development and skills training. The Southern Africa Regional program will fund on-going activities in agriculture research, training for disadvantaged South Africans, regional transport and manpower development.

The following are examples of how ESF impacts on policy reform:

-- ESF assistance in Sudan provided for studies and analyses to promote policy reform. Recent achievements include consumer goods price reforms. Policies put into effect reduced the need for budget subsidies while increasing incentives for domestic production. Overall, the government has made progress in implementing sound foreign exchange measures.

-- ESF funds support the IMF stabilization program in Somalia and promote fiscal and monetary policy reform. Significant reform has accurred. For example, in the past year Somalia introduced a managed currency float and devalued the Somali shilling twice for a total of 150 percent; pricing and marketing policies were reformed to allow producers to sell agricultural products at market prices; the growth rate of credit was reduced while credit to the private sector was allowed to expand; and interest rates were increased twice. The Commodity Import Program (CIP) permitted procurement by the private sector of needed development related commodities valued at about $16.5 million, thus relieving pressure on the balance of payments of the country.

Economic Policy Initiative

The experience of the international donor community over the last few years has led us to conclude that the growing complexity and urgency of Africa's economic problems requires a special effort. These problems require an effort specifically focused on policy reform to complement the existing set of programs at our disposal. The proposed Economic Policy Initiative represents that special effort.

Under the Initiative we propose the creation of a special fund with an initial FY 1985 appropriation of $75 million. We see this ultimately as a five-year $500 million program. We would direct these funds toward countries that can establish a suitable comprehensive economic policy framework. Such a framework would need to go beyond the immediate macroeconomic stabilization issues and include sectoral policies conducive to growth and longer run development. Monies from the special fund would, in essence, support implementation of reform packages.

We request that congress appropriate these monies on a no-year basis and not earmark them by functional account. This would help provide the flexibility needed to make an appropriate and timely response to substantive reform efforts. Because of the nature of the criteria for receiving funds, we have not pre-selected the countries that could participate in the Initiative. We envisage utilizing these funds in only a few countries per year.

The Economic Policy Initiative must highlight the need for strengthened donor coordination to support countries in developing comprehensive policy frameworks. Donors, in general, agree that Africa can no longer afford the luxury of loosely coordinated efforts. The World Bank would play a leadership role in this effort. We see strengthening of the consultative group mechanism as a major step in the process. We will pay particular attention to developing comprehensive country strategies that link the various interventions in the stabilization, structural-adjustment, growth and development chain in a consistent and reinforcing way. A less formalized approach may prove adequate for African countries already pursuing a clear path to reform and recovery.

The Economic Policy Initiative, a targeted instrument, will focus primarily on the sectoral level policy framework. Policy reform in the agricultural sector will become particularly important since agriculture lies at the heart of most African economies. Specific objectives would include deregulation, divestiture of government trading monopolies and greater reliance on market mechanisms and the private sector.

In this way, the Initiative will deal with improving the economic signals between macroeconomic stabilization efforts and individual production units. In donor assistance terms, it links projects to stabilization programs and supports both types of interventions. Its potential impact, therefore, should far exceed that expected by such levels of assistance.

Institutional, manpower, and other structural bottlenecks inhibit many African countries from implementing necessary reforms. For example, several countries have launched agricultural reforms calling for a move away from inefficient government marketing boards. They want to provide greater incentives to farmers to produce and to reduce the budget drain of these parastatals. The transition to a more private sector oriented marketing system will take time. It will also require assistance to strengthen alternative systems such as farm marketing cooperatives.

Funds from the Initiative to support reforms could measureably strengthen the farmer response to, say, a devaluation and concomitant producer-price increases. Increasing the response would improve the intended impact on the balance of payments as well as support project efforts to increase farmers' technical capacity to produce.

The association of Initiative efforts to stabilization programs calling for reduced budget deficits provides another example of using the Initiative. A major cause of rapidly expanding budget deficits emanates from governments' attempts to provide basic education and health services to a rapidly growing population. But cuts in the levels of these basic services, already unacceptably low, becomes extremely difficult. Governments might need assistance, for example, to help a ministry of education adopt and implement new policies. Such policies might strive to increase cost effectiveness of education programs or, perhaps, to increase user fees as an appropriate alternative to reducing the level of coverage.

Obviously, the improved donor coordination and comprehensive policy reform themes have already begun and have gained some momentum. Many of the countries in Africa have dialoged extensively with the IMF, the World Bank, and donors about policies to stabilize and restructure their economies. Much of the policy dialogue has focused on stabilizing the external sector by restructuring foreign exchange regimes and reducing policy disincentives to exports.

These discussions have also included key aspects of private sector development and institution building. Throughout Africa it has become clear that solutions to the economic crisis will require that donors participate in and support implementation of reforms. Otherwise, the reforms probably will have neither the desired development impact nor come about within a reasonable time frame.

Our existing programs have supported the reform process. The Initiative quickens the pace without disrupting our continuing longer run development efforts. It also creates a rallying point and transmits an unambiguous signal that the United States considers the Initiative's agenda a sine qua non for reversing Africa's economic tailspin.

Does sectoral policy reform work? Growing evidence in several countries demonstrates that agriculture can make a quick response to an improved incentive structure. Reforms in Sudan contributed to a 35 percent increase in cotton production in 1981 and to a further 10 to 20 percent jump in 1982. Liberalized pricing and marketing arrangements in Somalia associate with a substantial increase in maize and banana production. In countries with a generally good policy environmnet over time as in Malawi, the Ivory Coast and Cameroon, agricultural production has grown consistently and has served as the engine for growth.

We believe the time has ripened for the Economic Policy Initiative. Even though Africa's economic performance has deteriorated in the recent past and a large number of countries face extremely serious macroeconomic problems, we see reasons for optimism about Africa's prospects over the next several years. The very recognition of the crisis provides reason for optimism. It shows that African countries have become increasingly aware of the need for massive changes in the way they conduct their economic affairs. We have begun to see a significant shift in policy in countries that only a year or two ago we would have considered intransigent. The next few years will be crucial in determining whether Africa can set the stage for sustainable economic growth after a generation of false starts. The request for a special authorization for the Economic Policy Initiative demonstrates our commitment to Africa at this critical turning point.

The PL-480 Program

U. S. Government food assistance programs under PL-480 play a critical part in the equation that will lead to arresting the decline in Sub-Saharan agricultural production. Over the past few years, the regular PL-480 program to sub-Saharan Africa has averaged right around one million metric tons per annum, valued in the neighborhood of $250 million. In FY 1985 we request a total of $231.7 million in PL-480. This does not include emergency programs, which we will direct entirely towards alleviating human suffering and resolving emergencies brought about by critical and life-threatening food shortages.

We can use the regular PL-480 programs in a number of ways to encourage increased and improved food production on the continent.

The Government of Zambia has made a number of important decisions in the past few years that have spurred agricultural production - in spite of less than adequate rainfall. In exchange for shipments of U.S. food under PL-480 Title I, the Zambians have continually increased the farm-gate price for corn to the point where the price now competes with world market prices. The farmers have responded with increased production. At the same time, the government has all but eliminated the fertilizer subsidy so that farmers now pay the real cost of fertilizer. The increased farm-gate price provides sufficient incentive to use unsubsidized fertilizer. As a result, the agriculture sector in Zambia has begun to function in a freer fashion with farmers responding accordingly.

The Government of Sudan has made important policy changes in relation to the price of wheat as a result of the large PL-480 Title III program (five years duration, total of $100 million). Last summer the government removed the subsidy on wheat, so that the wheat price to the consumer reflects the true cost. Sudan raised the price as a condition of receiving the next increment of the Title III program. At the same time, local currencies generated by the sale of the U.S. wheat financed studies that will, inter alia, determine the feasibility of mixing sorghum with wheat to produce a sorgo-wheat flour for bread, at a lower cost than wheat.

Cape Verde, Mauritania and Upper Volta all have benefitted from PL-480 Title II Section 206 programs. Through this mechanism the U.S. guarantees food to a country for several years and pays the ocean and inland freight costs. The recipient country can then sell the food - providing it has undertaken certain policy reforms, and can use the local currencies generated for activities which will stimulate agricultural production.

In Upper Volta, in exchange for the food, the government has consistently raised the farm-gate price for sorghum (the major crop) so that farmers no longer have to absorb a loss when they sell this crop. In addition, the government has begun a revolving fund, using the local currencies from the sale of the U.S. and other donor food. With this fund the Government stabilizes the price of grain. The government buys grain on the local market when the price gets too low and releases grain from its stores when the price gets too high.

In Mauritania, the government has raised the price of sorghum and other grains to consumers. It will continue to do so over a period of years until the cost to the consumer represents the true, unsubsidized, cost of the grain, whether domestic or international. The differential in price between the two sources of grain will encourage greater production in Muaritania, and greater agricultural self-reliance.

Our D.A., PL-480, ESF programs and the proposed Economic Policy Initiative provide a comprehensive package to address the short, medium and long term problems of Africa. This package provides the wherewithall to deal effectively with economic stabilization, food production and distribution in Africa and policy reform. Working increasingly in concert with other donors, we expect our billion dollar program in FY 1985 to provide the support required to work more effectively with Africans in their pursuit of sustained development.

Mr. Chairman, I would be happy to discuss the program in more detail with you here today. Thank you.

BUREAU FOR ASIA

STATEMENT OF CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, AGENCY FOR INTERNATIONAL DEVELOPMENT

BUDGET REQUEST

Mr. GREENLEAF. Thank you, Mr. Chairman, for the opportunity to discuss our fiscal year 1985 budget presentation for Asia.

We are requesting $747 million in economic assistance for South and Southeast Asia, which includes $447 million for development assistance and $300 million for economic support funds, as well as $368 million for Public Law 480. Poverty alleviation, Mr. Chairman, is still the primary purpose of our program, and economic growth in the context of equitable social and economic policies is certainly essential to this goal.

Following up on what Peter McPherson said, our approach in Asia, with our programs, will continue to encourage economic policies that we feel are sound, and to support the development of science and technology, and to stimulate the private institutions which are critical to the economic development process.

I appreciate the opportunity to be here today, and I look forward to answering any questions you might have.

[The prepared statement of Mr. Greenleaf follows:]

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to present the FY 1985 budget request for the Asia Bureau. We request funding of $747 million for economic assistance programs in South and Southeast Asia, including $447 million for Development Assistance and $300 million in Economic Support Funds. In addition, $368 million in P.L. 480 is proposed to help achieve developmental objectives in conjunction with DA and ESF programs.

ASIAN OVERVIEW

U.S. interests in Asian development are political, economic and commercial. We are also concerned about the flow of illicit narcotics from Asian countries to the United States.

The alleviation of poverty, however, remains A.I.D.'s fundamental task in the region. Although Asian economic growth generally has been admirable, the overwhelming preponderance of global poverty remains Asian-based. Asia's per capita GNP is less than a third of Latin America's, under a quarter of the Near East's, and below Africa's. Especially in South Asia, many health and other quality-of-life indicators are well below those elsewhere in the underdeveloped world. Although there have been recent improvements, increasing food production and decreasing population growth rates remain pressing needs.

Asia experienced significant economic progress during the 1960s and 1970s. GDP growth was somewhat slower in South Asia in the

1970s than in the previous decade, while in Southeast Asia economic growth in the 1970s exceeded that achieved during the 1960s.

Growth performance was uniformly satisfactory in Southeast Asian countries throughout the 1970s. Thailand, the Philippines, and Indonesia grew in the 6-7 percent range -- a stunning development achievement.

The countries of South Asia, however, were hard hit by the oil price increase of the early 1970s. But the late 1970s and early 1980s saw considerable economic improvements, despite the worldwide recession. Agricultural performance improved in the late 1970s due to good weather, improved policies, and the cumulative effects of development investment in that sector. Workers' remittances also made a difference. Thus, the countries of South Asia started the 1980s still extremely poor but remarkably resilient, due in considerable measure to wise economic management.

The remainder of this decade should see continued growth in most of Asia, depending on economic policies, levels of concessional and non-concessional capital flows, growth "pull" from developed country imports and continuation of remittances. The World Bank suggests growth in the 3.5 to 4.5 percent range for South Asia and 6 percent for Thailand and Indonesia. In the Philippines, long-term prospects should also be excellent, if it successfully manages its current economic problems. We must be mindful that prospects for the poorest Asian countries--basically those of South Asia--while by no means hopeless, are for a long, hard pull to achieve a modestly acceptable standard of living for very large, very poor populations.

A.I.D. PRIORITIES

Poverty alleviation remains the underlying purpose of A.I.D. programs in Asia, and economic growth in the context of equitable social and economic policies is essential to this goal.

Our approach in Asia encourages sound economic policies, supports indigenous scientific capability and the development of technology, and stimulates private institutions critical to the economic development process.

Policy dialogue is essential. In all of our cooperating countries we work with host governments to improve economic and development programs and priorities, and remove obstacles to development that may be posed by inefficient policies. Examples are the shift in Bangladesh fertilizer sales to the private sector, and the Indonesian government's strong support for the family planning program.

We support the application of effective technologies and institutional frameworks, in which the U.S. is relatively strong; thus, technical assistance is a large part of the program, to the extent that grant funding is available. But capital assistance, carefully linked to technical assistance and training, will also be needed to demonstrate institutional and technical solutions to complex problems, and to increase the effectiveness of policy dialogue.

Private enterprise programming requires intense and creative efforts in policy dialogue, institutional strengthening, development finance, training, and information exchange. The private sector is an important dimension of development, and we can help in this area.

The character of our programs in the rapidly developing countries of Southeast Asia should begin to be modified in the next five years and beyond to reflect their changing economic status. A shift to more flexible programs stressing science and technology is occurring.

The very poor and generally large countries of South Asia remain the region's--and perhaps the world's--major development challenge. We have helped lay the foundations for sustained growth and development in the subcontinent. We will continue to contribute significantly to the development effort of these countries.

FY 1985 DEVELOPMENT ASSISTANCE REQUEST

The Development Assistance (DA) funding request for $447 million is described in the Congressional Presentation. By way of illustration, I would like to highlight a few of the functional account initiatives that exemplify the nature of the requested program.

Agriculture, Rural Development and Nutrition

Nearly two-thirds of the total DA request is for programs in this account. We are concentrating on applied agricultural research, education, use of technology, and water management programs that will encourage continuous and sustainable increases in foodgrain production, and stimulation of private enterprise activity throughout the region to absorb excess rural labor and increase family incomes.

--The Forestry Research, Education and Training project in India will provide technical, financial, and training assistance to India's major forestry research institutes and selected state-level colleges to develop long-term programs for forestry research and manpower development. Limited capacity for extension training emerged as a major constraint during the design of previous social forestry projects. These findings were reinforced by a multi-donor forestry sector assessment last year. The project will include development of curriculum materials and collaborative research with U.S. institutions to adapt and demonstrate relevant technologies.

--The Irrigation Systems Management project in Sri Lanka will increase the Government's institutional capacity to rehabilitate and operate major irrigation systems. Building on evaluation experience from earlier projects, this effort will conduct training for irrigation officials, make extensive use of multidisciplinary analyses, maximize local farmer participation, and install systematic monitoring and evaluation. The private sector will also play an active part in the project.

Population and Health

Health projects improve and expand the delivery of cost-effective primary health care (oral rehydration therapy, immunizations, nutritional status monitoring, breastfeeding, and malaria control) through public, private and traditional systems, particularly to children and mothers. Population programs will continue to expand the availability and use of safe and effective family planning services, through technical assistance, training, commodity support and research. There will be increased emphasis on countries where the largest population increases are projected.

--The Family Planning Services project in Bangladesh supports both governmental and non-governmental population activities, with more stress on social marketing of contraceptives. The government program includes provision of contraceptives, demographic research support, participant training and training materials, and community-based family planning projects. Increased A.I.D. funding is also going to the non-governmental program, including private sector retail sales of contraceptives, which has been growing at a phenomenal 25 percent annually.

--The Diarrhea Mortality/Morbidity Reduction project in Indonesia, building on an earlier pilot project, will help the Ministry of Health intensify its efforts to reduce deaths and severe illness due to diarrheal disease. Special attention will be paid to using low-cost oral rehydration therapy, particularly for children. The Faculties of Public Health project will develop post-graduate training centers for Indonesian public health and population officials.

Selected Development Activities

Private sector and energy projects, among others, are funded from this appropriation.

--The Technology Transfer for Energy Management project in the Philippines promotes increased productivity in the industrial, commercial and building sector through the adoption of energy-efficient equipment, management systems, and processes. Activities include local and national institutional development, information dissemination, fuelwood research and production, pilot projects for equipment adaptation, and technical assistance and training.

--The Regional Private Enterprise Development program in the South Pacific, and the ASEAN Small and Medium Business Improvement project with the Association of Southeast Asian Nations are regional projects that aim to increase the productivity and employment capacity of small and medium businesses through the provision of technical assistance in a number of fields. These fields include investment opportunities, marketing and quality control technology, managerial training, and trade promotion.

FY 1985 ECONOMIC SUPPORT FUND REQUEST

The Economic Support Fund (ESF) request is for $300 million.

Two-thirds is requested to fund the major part of the Pakistan program, largely for projects in the agriculture and energy sectors. Included are agricultural research and technology, agricultural and energy commodities and equipment, forestry, irrigation and water management, and broadbased development programs in disadvantaged regions.

The Philippine ESF program request is $95 million. It will support basic rural infrastructure such as schools, roads, and markets, energy development, and a major new activity providing balance of payments support and local currency counterpart contributions for multilateral bank and A.I.D. projects which increase rural productivity.

The ESF program in Thailand continues rural development support for people living in border areas with Laos and Kampuchea, who have been adversely affected by the influx of refugees and by continuing warfare in some areas.

A.I.D. AND NARCOTICS

Narcotics control is receiving increased attention. Some opportunities to develop projects in this area result from the interest of recipient governments in eliminating illicit narcotics production. One very significant obstacle is posed by the remoteness of major narcotics producing areas in most countries.

In 1983, A.I.D. undertook significant action in cooperation with the Pakistan Government. This included initiation of the $20 million Gadoon-Amazai Area Development project, which covers about half of Pakistan's current poppy cultivation areas. Assistance was also provided to the Government of Pakistan to prepare a Special Development and Enforcement Plan to eradicate all existing centers of poppy cultivation and to prevent the resurgence or introduction of opium production in non-producing areas. We hope to join other bilateral and multilateral donors in funding projects identified in this plan.

A component of A.I.D.'s ongoing Mae Chaem Watershed project in Thailand is supportive of the State/INM-Thai Government crop substitution effort. The Mae Chaem project seeks to establish environmentally sound and economically attractive land use practices among poor farmers in the Mae Chaem watershed area. Its principal objectives are achievement of self-sufficiency in rice production and increased real income without resort to illicit opium production.

The Burmese Government continues to work closely with both the U.S. (State/INM) and the United Nations on ways to control opium production. However, given the poor security situation in the poppy growing areas, it would not be fruitful for A.I.D. to get involved in the development side of narcotics control at this time.

FOOD FOR PEACE

The P.L. 480 request is $191 million in Title I/III programs for Bangladesh, Pakistan, Indonesia, and Sri Lanka, and $177 million of Title II activities in those countries and India, Philippines, and Nepal.

The largest Title I/III program is in Bangladesh, where provision of wheat, rice, vegetable oil and cotton have enabled us to conduct a very successful policy dialogue with the Government. Major elements of this dialogue include such critically important areas as phase down of the foodgrain rationing system, reduction of foodgrain subsidies, provision of incentive prices to farmers to encourage use of high-yielding varieties, and reliance on an Open Market Sales program to moderate rises in food prices. These policy initiatives complement and reinforce Development Assistance-funded project and policy activities.

India has the Bureau's largest Title II program, with four major elements. The School Feeding program, half of which is phasing over to Indian Government support, was recently evaluated and found to have strong impact on female school enrollment and retention, with long-term implications for family planning. The Maternal/Child Health program is integrated with a new Development Assistance project, following evaluation recommendations for improved nutritional targeting and inclusion of nutrition education and health services. An evaluation of the Oilseed Growers' Cooperative Project recently endorsed the basic approach to increasing production and marketing of oilseeds and edible oils. The Food for Work program provides employment to hundreds of thousands of the rural poor, as well as small-scale infrastructure.

PRIVATE VOLUNTARY ORGANIZATIONS

The private voluntary organization (PVO) community is actively involved in the A.I.D. program. PVOs receive dollar grants in a number of countries, especially those with PVO Co-Financing projects, such as the Philippines, Thailand, Nepal, Indonesia, and the South Pacific. Indeed, the majority of the South Pacific Regional program is a PVO operation.

MANAGEMENT INITIATIVES

Delegations--The Asia Bureau is improving its management efficiency by delegating some key authorities and responsibilities from Washington to the field. Following through on the Administrator's delegation of higher project approval authorities to the regional bureaus, this bureau has redelegated the maximum permissible to our Mission Directors. At the same time, a reorganized review process for project proposals distinguishes more clearly between major strategy issues, for which decision-making responsibility is retained in Washington, and project design or implementation issues, for which maximum authority is also being delegated to the field. The combined result of these changes is streamlined management. Project decisions depend more heavily on first-hand knowledge of local conditions, and there is a stronger and more efficient system for project design, review and approval.

Financial Management--I share this Committee's concern that our programs should have tight financial management procedures. The Committee's concern has been helpful to us in achieving our shared objectives of proper funds control. In this regard, I am pleased to report that efforts on the part of Bureau management to respond quickly and effectively to audit recommendations has been bearing fruit. While quantitative measures are only partial indicators, it is worth noting that on December 30, 1982 the Bureau had 74 open audit recommendations, of which 47 were outstanding (e.g. open for six months or more). On December 30, 1983 there were 50 open recommendations, of which 28 were outstanding. This represents reductions of 32 percent and 40 percent respectively.

Evaluation--The Bureau is making a serious effort to improve Asia programs through increased use of evaluation as a management tool. Three aspects of this effort follow:

1. Missions are required to include annual evaluation plans as part of their country budget submissions, thus closely linking evaluation to program activities. Most importantly, this change encourages missions to schedule evaluations at crucial points in the determination of program strategies, and so provide information genuinely needed for informed decision-making.

2. We are making lessons learned from our evaluations more easily accessible to bureau personnel. Each year, for the past five years, executive summaries of all evaluations completed

for that year have been compiled and distributed throughout the Bureau. We also monitor all evaluations completed by missions to ensure that they are forwarded for inclusion in the overall Agency data base. In this way, lessons learned in Asia are available to other bureaus and offices.

3. Over the past several years, the Bureau has been supporting and encouraging the development of monitoring, data collection and evaluation systems for Asia projects. We believe such systems will improve the availability of empirical data on project performance, effectiveness, and impact. It will help us guide, refine, and target our programs. Asia missions now submit data collection plans regularly, and the bureau supports the development of such systems in several sectors and missions.

CONCLUSION

In summary, we are working on some new approaches while holding to our basic purpose of helping countries meet the basic human needs of their citizens.

I appreciate this opportunity to appear before you today, and am ready to answer your questions.

BUREAU FOR THE NEAR EAST

STATEMENT OF W. ANTOINETTE FORD, ASSISTANT ADMINISTRATOR, BUREAU FOR THE NEAR EAST, AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM HIGHLIGHTS

Ms. FORD. Thank you, Mr. Chairman.

I appreciate again the opportunity to appear before you.

I would just like to highlight several of the elements of our program in the Near East Bureau. For example, Egypt, I would like to stress, as we have in our formal presentation, this past year was notable for its program implementation. For example, $856 million in ESF expenditures were made as against the obligation of $750 million.

This achievement, coupled with the deobligation of $103 million from the completed or troubled projects, led to a decrease of about $200 million in our pipeline, which has also been an issue over the years. Related to the $103 million deobligation, as you are aware, we have advised the four congressional committees. While the Administrator has defended the request at every opportunity, we have as yet not been able to obtain the consent of those committees.

LEBANON

In Lebanon, of our request last year of $150 million, we have been able to obligate approximately $21 million. For this year, we are asking in our fiscal year 1985 request for $20 million for Lebanon.

However, given the likelihood that we will need funds for emergency relief requirements as well as support to American educational institutions in Beirut in the near future, and that the Lebanon supplemental is an appropriate source, the fiscal year 1985 request of $20 million may well be used to replenish the funding for reconstruction projects so needed by that country.

MOROCCO

In Morocco, we are requesting an increase in ESF of $15 million, and a larger Public Law 480 title I program to help the Moroccans meet their balance of payments requirements in the context of the efforts that they are currently undertaking.

Also, I am pleased to report that we have made rapid progress in designing a scientific program to help augment snow pack in the mountainous regions of this country, and we anticipate an early signature on that agreement.

CYPRUS

Very briefly, I would like to mention Cyprus, because we are requesting $3 million in ESF, which we would propose to use for the highly popular scholarship program in that country.

SYRIA

Finally, in Syria, we have officially closed the AID mission, and all personnel have departed. Furthermore, as required by last year's legislation, we have deobligated $115 million, and plan to deobligate another $3 million soon, which leaves a balance of about $50 million in the Syria program. That covers the remaining Syrian participants who are being trained in this country, who number 52, and any potential claims by U.S. contractors and supply which may arise from congressional termination action.

Thank you, Mr. Chairman. I will be pleased to entertain any questions that you have.

[The prepared statement of Ms. Ford follows:]

PREPARED STATEMENT OF W. ANTOINETTE FORD

ASSISTANT ADMINISTRATOR
BUREAU FOR THE NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Committee:

I am pleased to be here today to support the President's request for economic assistance to countries in the Near East region. For the region as a whole, the President is requesting $2,003 million, consisting of $1,951 million in Economic Support Funds and $52 million in Development Assistance funds. Attached to this statement, which I am submitting for the record, is a table which summarizes the Administration's request. Under a separate appropriation, $301 million in Public Law 480 Titles I and II is also planned for countries in the Near East.

Within the region, our request for countries in the Middle East includes $1,678 million in Economic Support Funds and $49 million in Development Assistance. Our request for countries in Europe is $258 million under ESF, and for regional projects we are requesting $15 million in ESF and $3 million in Development Assistance.

THE MIDDLE EAST

The Administration's primary objective is to help bring a just and lasting peace to this crisis-torn area. In this context, our economic assistance programs are designed to support the efforts of those governments which are undertaking risks on the road to peace, by addressing some of the pressing economic and long term development problems faced by these countries. Certain of our programs are directed at helping those countries which provide important access or transit facilities into the region for U.S. forces and support their deployment in time of crisis. Through our support of long term economic and social development as well as economic stabilization, and through support of emergency reconstruction efforts in Lebanon, AID helps strengthen the recognition that the U.S. is dedicated to the security and well- being of all friendly states in the area.

EGYPT

For Egypt in fiscal year 1985, we are requesting $750 million under the Economic Support Fund, the same level as in FY 1984. In addition, $238 million is planned under PL 480 -- $225 million under Title I and $12.8 million under bilateral Title II programs. We propose that the ESF resources be made available as grants, continuing a policy set by Congress in FY 1981. PL 480 Title I would be provided as a loan payable over 40 years, including a ten year grace period. Interest on the loan would be two percent during the grace period and three percent thereafter.

The program of economic assistance to Egypt continues to be built around three central objectives: stability, productivity, and equity. The main components of the Economic Support Fund program are:

-- A $300 million Commodity Import Program to help assure the availability of essential materials and capital goods for Egyptian industries, and for development programs and consumer items needed by the populace.

-- $220 million to continue the rehabilitation and modernization of the country's infrastructure. This includes $200 million for the high priority water and wastewater rehabilitation and expansion programs in Cairo and Alexandria, and $20 million to continue improving the electricity distribution system.

-- $110 million to help increase production and productivity in industry and agriculture.

-- $75 million to enhance the provision of basic services at the local government level through the Decentralization Sector Support program.

-- $45 million to strengthen essential social infrastructure in areas such as family planning, science and technology, and training, and to support feasibility studies and private voluntary activities.

The proposed FY 1985 program responds to Egyptian requests for balance of payments support, the rehabilitation and expansion of Egypt's major urban water and sewerage systems, and for its decentralization, production, and population objectives. The proposed program is consistent with the Government of Egypt's five year plan. The program avoids investments in areas where they might impact negatively on the pace of needed economic reforms.

The proposed FY 1985 assistance builds upon our ongoing program, which is performing well. The program is moving forward and increasingly is making itself felt in Egyptian life. Evidence of this includes:

— Program implementation improved dramatically in FY 1983 over prior years' performance. Expenditures exceeded new obligations for the first time since the resumption of U.S. assistance in 1974. ESF expenditures in FY 1983 totalled $856.3 million against a projected level of $866.9 million, and total expenditures including PL 480 were $1,129 billion.

— For the first time, growth of the pipeline was reversed. From a peak of nearly $2.7 billion at the end of FY 1982, it dropped to a little under $2.5 billion at the end of FY 1983.

-- By the end of FY 1983, the Decentralization Sector Support program had completed or had under way some 4,700 local infrastructure and service activities touching the lives of an estimated 32.5 million people out of a total Egyptian population estimated at 46 million people.

-- Public awareness of family planning has grown and the use of modern contraceptives has increased. As a result, the population growth rate has declined from 3 percent in 1980 to 2.7 percent in 1982, according to Government of Egypt statistics.

-- Our investments in telecommunications are resulting in improved telephone service in Cairo. The first new telephone exchange began service in December 1983 and three additonal exchanges are expected to begin service during succeeding three to four month intervals.

-- The Suez cement plant is completing its shakedown and will begin full-scale production within the next few months. The Quattamia cement plant will be completed within a year. These plants will increase Egypt's domestic cement production by as much as 60 percent,and together with other plants under construction should satisfy domestic demand for cement through 1990.

-- In addition to the 300 megawatts of power now being generated by the AID-financed Talka/Helwan generators, this year the first and second units at the Ismailia power station were completed, adding another 300 megawatts of electrical generating capacity. The construction of the 945 megawatt Shoubra power plant is ahead of schedule and the first unit will begin operation in January 1985.

-- Over the past year, major construction contracts were signed and contractors have mobilized under the Low Income Housing project, Safaga Grain Silos, Cairo Water, Cairo Sewerage, Canal Cities Water and Sewerage and Alexandria Wastewater. Preliminary rehabilitation work in Alexandria and Cairo is already reducing sewerage overflows and flooding.

There are two reasons for the marked improvement in delivering U.S. assistance to Egypt. First, the project portfolio has matured to the point where capital projects in all major investment areas have passed the design and contracting stages and have reached full-scale construction. Second, A.I.D. and the Government of Egypt have taken several measures to improve program management:

-- A.I.D. and the Government of Egypt conduct joint, semi-annual portfolio reviews to focus additional attention on "problem projects" which are off their implementation schedules by more than a year, still face unresolved implementation problems, or face redesign decisions.

-- These same reviews identify projects for attention which are showing early signs of falling behind.

-- The Cairo Mission reports monthly on actions being taken to put "problem projects" back on track.

-- Using a new authority provided by Congress during FY 1983, A.I.D. and the Government of Egypt deobligated $103.2 million from 13 projects and eight CIP agreements. The new authority provides a powerful tool for taking corrective action on slow-moving projects.

While all program management problems have not disappeared, they have been reduced considerably. As of September 30, 1983, only ten projects in the active portfolio of 85 projects were identified by A.I.D. and the Government of Egypt as still facing significant implementation problems. These projects have an unexpended pipeline of less than $80 million. We will continue to work with Egyptian government officials to resolve outstanding issues.

Turning from our assistance program to Egypt's economic situation, there were both positive and negative aspects to Egypt's economic performance over the past year. It is encouraging, however, that the positive elements were largely the result of actions taken by the Egyptian Government rather than of fortuitous events, as has sometimes been the case in the past.

The sharp deterioration in the balance of payments current account that occurred the previous year was slowed in the Egyptian fiscal year ending June 30, 1983. The current account deficit nevertheless grew by $100 million, reaching $2.2 billion, as the trade deficit, which had been eased by lower import prices the year before, jumped by $675 million.

The increase in the trade deficit was due largely to a continued drop in the price of exported petroleum and increases in the price of imports. The trade deficit would have been been even larger if the government had not taken measures to restrain imports. Perhaps the most important of these measures was to require government agencies and public companies to buy foreign exchange at the free market rate rather than the government rate. This amounted to a de facto partial devaluation. It raised the local currency cost of imports by about 30 percent and therefore discouraged public sector imports.

Much of the increase in the trade deficit was offset by a higher level of remittances from Egyptian workers abroad after public sector banks were allowed to pay near free market rates to attract them. Again, this was a de facto partial devaluation.

Despite the somewhat larger current account deficit, the overall balance of payments showed a surplus of $640 million, as compared to a deficit of $540 million the previous year. Part of the improvement is accounted for by higher disbursements of official loans and grants, especially those of A.I.D. Egypt's debt service ratio is probably close to 30 percent, a heavy but not unmanageable burden. We estimate that Egypt's debt service will increase by about $250 million in the current fiscal year, with half of that increase attributable to FMS. The increase in the debt service in the next few years is likely to amount to $300 - 400 million annually, but FMS will contribute very little to the increase if the Administration's proposal for all grant funding beginning in FY 85 is accepted.

Without further policy changes, none of Egypt's foreign exchange resources can be expected to grow to cover this increased debt service. In fact, rapidly rising domestic consumption of energy driven by low domestic energy prices is likely to cut into oil exports. It is therefore urgent that steps be taken to encourage exports and to restrain demand which is both reducing the availability of goods for export and increasing imports of consumer goods.

The Egyptian government is well aware of the extent and significance of its balance of payments and fiscal problems. On the one hand, it is making economic reforms to correct the causes of its problems. On the other hand, it is searching for additional free foreign exchange, including cash transfers from the United States. As A.I.D. Administrator McPherson said two years ago, A.I.D. is prepared to make a cash transfer to Egypt to help alleviate the dislocations which could accompany major economic reforms, but without basic structural changes, particularly in pricing and subsidy policy, U.S. resources will continue to be more effectively utilized in projects which address social needs and promote increased economic productivity.

In conclusion, I believe that the economic assistance program to Egypt has turned the corner. Project implementation is now moving well. Improved management systems are in place to tell us quickly when projects are in trouble and how efforts to resolve problems are proceeding. The program is focussed on the highest priorities of Egypt's five-year development plan. Most importantly, the program is having an increasingly tangible impact on a large portion of the Egyptian people.

ISRAEL

Our fiscal year 1985 request is for $850 million in grants from the Economic Support Fund, of which $785 million is for balance of payments support, and $65 million is to strengthen four U.S.-Israel binational foundations.

ESF resources combined with the proposed FMS program provide a strong demonstration of U.S. support for Israel and one which is intended to provide

Israel with the security needed to take the risks associated with further steps toward peace in the Middle East. As in the past, the ESF balance of payments support grant will be implemented on the assurance that Israel will continue to import non-defense goods from the U.S. in an amount at least equal to the grant level, and that Israel will follow agreed procedures for selecting dry bulk carriers to ship grain. These procedures were developed with a view toward assuring a share of the market for U.S. flag carriers.

Israeli economic performance in 1983 was disappointing. Performance in exports, which have contributed some 40% to Israel's gross domestic product, was poor. While recession in Western Europe and North America had been a principal contributing factor to Israel's poor performance in 1982, continuation of the export slump is attributable to the Israeli policy of maintaining an overvalued exchange rate. High defense expenditures, continued efforts to maintain a high level of social services and economic security, and cheap imports combined to sustain domestic demand at high levels despite poor GNP growth performance. Buoyant domestic demand also added to inflationary pressures and reduced the economy's ability to export. Gross domestic product expanded by only about 1% in 1982 and 2% in 1983. However, per capita consumption grew by over 4% in 1983. The inflation rate increased to 190% (a record rate) compared to 132% in 1982 and 102% in 1981. Exports of goods and services declined by one percent in dollar terms while merchandise imports grew by 4%. The non-defense goods and services deficit for 1983 was about $3.9 billion, as compared to $3.2 billion in 1982. The enlarged current account deficit and amortization of external debt was financed by slight increases in bond sales and net foreign investment in Israel, somewhat larger increases in commercial borrowing and U.S. economic assistance, and a small drawdown of foreign exchange reserves.

Israel's basic economic problems persist. These problems are triple-digit inflation and disequilibrium in the balance of payments. The challenge is to resolve these problems without undue sacrifice to the economic well-being of the people. Achievement of these objectives requires giving priority to export expansion, constraining budget deficits, monetary expansion and private consumption to hold growth in domestic demand, and careful scheduling of military equipment purchases so that they do not unduly exacerbate existing economic pressures.

In addition to balance of payments support, A.I.D. also proposes to provide, on a one-time basis, $65 million for endowment of four U.S.-Israeli binational foundations: the Binational Industrial Research and Development Foundation ($25 million); the Binational Science Foundation ($20 million); the Binational Agricultural Research and Development Fund ($15 million); and the U.S.-Israeli Educational Foundation ($5 million). These foundations need additional funding in part because their original endowments have shrunk in real terms because they were invested at interest rates below the rate of inflation. The additional funds requested will also make it possible to fund larger programs. Funds will be provided to the foundations only upon successful negotiation of changes designed to strengthen their financial condition. The activities of these foundations constitute important contributions to Israel's longer term objectives in the areas of science-based and high-technology production.

JORDAN

In fiscal year 1985 we are requesting $20 million under the Economic Support Fund for Jordan, of which $13 million will be grants and $7 million will be loans with maturities of 20 years, a five-year grace period, and five percent interest. These resources will be used to support priority development programs in a country which is a moderate voice in the Arab world and seeks to play a positive role in responding to President Reagan's September 1, 1982 peace initiative. While Jordan's level of per capita income places it in the ranks of the middle-income countries, its need for external resources is significant. Jordan continues to be highly dependent upon foreign assistance to finance its ambitious development plans, and, with the declining price of oil, some Arab donors have slowed or reduced their assistance to Jordan. Remittances from Jordanian workers abroad have also leveled off. In 1982 Jordan's overall balance of payments was in deficit for the first time in over five years, while the expansion of gross domestic product was 5.5 percent, well below recent growth rates. With meager natural resources, Jordan's successes are due to government policies which encourage a dynamic private sector, and to a skilled and hard working labor force.

The fiscal year 1985 program will continue A.I.D.'s emphasis on technical assistance and technology transfer projects which stress institution building involving both the public and private sectors, as the best means to make a qualitative American impact with a relatively small assistance program. In support of Jordan's five-year plan to stimulate more geographically balanced growth and subject to feasibility analysis, A.I.D. will help increase agricultural production in the highland rainfed regions, and will initiate a pilot effort to encourage the development of small enterprises in rural areas. Another major new initiative is the Jordanian-American Scholarship fund, which will be set up to help finance Jordanians wishing to study in the United States.

LEBANON

For fiscal year 1985 we request $20 million in grant funds under the Economic Support Fund, a substantial reduction from the FY 1983-84 supplemental request of $150 million. This reduction has been envisioned since FY 1983, when we decided to infuse a large amount into reconstruction of the beleaguered Lebanese economy. By this effort, we had hoped to attract other donor contributions to Lebanon while providing highly visible, quick-disbursing reconstruction assistance. While the ongoing hostilities have slowed the inflow of aid, our future assistance will be important to demonstrate support for Lebanon during the difficult period of political reconciliation and reconstruction.

In FY 1983, we were able to accomplish a great deal despite constant security threats and the April 18th attack on our Embassy. AID maintained a full Mission in Beirut until September 1983. In September, the security situation deteriorated very seriously and all of our Beirut staff has since been withdrawn. Most important among our accomplishments were the design of a $150 million reconstruction program, the establishment of productive working relationships with the Lebanese responsible for reconstruction, and a significant statement, by our very presence, of U.S. support for a unified and peaceful Lebanon.

In the remainder of FY 1984, with a competent local staff coming to work every day, we will continue to implement some projects and obligate additional funds for these projects as the security situation allows. We already have requests from international and private voluntary agencies to fund emergency relief activities. It is very likely these will be financed from last year's supplemental. However, we are unable to precisely estimate these requirements at this time.

In point of fact, the fast-changing situation on the ground in Lebanon may require redesign of the FY 1985 program. Events have already required us to reallocate, for emergency relief and support for American-sponsored educational institutions in Beirut, part of the funding requested last year for our supplemental $150 million reconstruction program. We will probably have to make further reallocations after, of course, prior consultation with the Congress. Thus, some or all of the new $20 million request may be used to replenish the funds already taken from the reconstruction program.

The program proposed in the Congressional Presentation for FY 1985 focusses on three sectors: housing, health, and national income generation. These sectors have been selected as those in most need following two years of investing in capital infrastructure repair. The proposed activities include:

-- housing reconstruction: to be carried out by two private voluntary organizations (PVOs) through complementary programs of training in building skills and credit to the low income homeowner for home repair or reconstruction;

-- health care improvement: to finance the first stage of decentralizing a terribly overburdened Health Ministry so that health care in Lebanon can move from its current orientation toward curative, hospital care to preventative clinic care which is both more accessible and affordable; and

-- government revenue generation: to provide technical assistance to Lebanon's Finance Ministry and Central Bank in planning and establishing national mechanisms for improving and collecting government revenues.

MOROCCO

For fiscal year 1985 we are requesting $19 million in Development Assistance funds and $15 million under the Economic Support Fund for Morocco. In addition, under a separate appropriation, we are requesting $40 million under PL 480 Title I and $9.7 million for the Title II program. The substantially increased level of requested economic assistance reflects the fact that Morocco, as a long-standing friend of the U.S., continues to face a deteriorating economic situation marked by large budget and trade deficits, rapidly increasing service costs on external debt, and other difficult domestic economic problems.

Since the late 1970s Morocco has been struggling to overcome declining demand for its principal export, phosphates, and growing competition and protectionism that have limited agricultural exports. These negative export trends have coincided with dramatic increases in Morocco's import bills for energy and food, but the persistent decline in phosphate prices since 1975, the global recession of the past three years, and stagnation in domestic agricultural production have limited the impact of the GOM's adjustment efforts.

In July, 1983, the Moroccan Government adopted a broad program of austerity measures and reduced or eliminated subsidies (thereby raising prices) on consumer goods, water, electricity and petroleum products. The Government of Morocco's 1983 operating and investment budgets were revised downward to curtail persistent budget deficits. In September, 1983, Morocco entered into a new 18-month stand-by arrangement with the IMF for $315 million. Moreover, the Government agreed to remove a further number of controls on prices, thereby reducing the subsidy burden in the budget. Other important elements of the program are a sharp reduction in Government hiring, introduction of a value-added tax, trade liberalization measures, and continuation of a flexible exchange rate policy which included a devaluation of 10 percent in August 1983.

Morocco is also presently engaged in a rescheduling of its official and commercial debt repayments. Nevertheless, even with successful debt reschedulings, Morocco will still require over $700 million in financing from the donor community through the end of calendar year 1984 to meet its obligations. Active U.S. participation in a collaborative effort to provide additional support through increased levels of ESF and P.L. 480 Title I, together with CCC credits, is critical to Morocco's success in filling this gap.

Morocco's overall balance of payments problems, its requirement for a high level of wheat imports, the stagnant agricultural sector, and extensive underemployment, have led A.I.D. to a strategy which concentrates on three priorities — increasing food production on rainfed lands, reducing the rate of population growth, and reducing energy costs. A.I.D.'s agricultural strategy combines Development Assistance funding, PL 480 Title I local currency sales proceeds, and Economic Support Funds in an integrated program to promote investment in agricultural production. The principal component of A.I.D.'s population strategy is to help the government to deliver on a broad scale basic health services combined with family planning education and commodities. In the energy sector AID will continue to assist the Government of Morocco to improve its energy planning and policies, and to identify and exploit domestic sources of conventional and renewable energy, and thus to reduce energy imports.

A.I.D. also provides modest levels of support for a participant training program both at U.S. universities and in-country, for central, regional, and local government personnel.

OMAN

In fiscal year 1985 we are requesting $20 million under the Economic Support Fund for Oman, of which $5 million would be in grants and $15 million in loans. The loan funds are repayable in twenty years with a five-year grace period and five percent interest. In 1980 the United States agreed to establish a Joint Commission with Oman through which modest levels of economic assistance would be channeled to respond to the Omani desire to broaden our bilateral relationship beyond mutual security concerns in the area. Oman's high per capita income is based almost entirely on its oil wealth and obscures the fact that the overall level of economic development is low. The modernization process is only 14 years old and the country has spent large sums of money on creating the basic physical infrastructure upon which to launch effective development programs. Oman will require technical assistance for many years to implement development programs which will meet the needs of its people.

The fiscal year 1985 grant funds will support the work of the Joint Commission in performing feasibility studies and technical assistance, and provide more funding for the participant training project, which began in fiscal year 1983. The $15 million loan will be used to support further expansion of the schools construction project which the Joint Commission initiated in fiscal year 1983.

TUNISIA

For Tunisia, we are requesting $3 million in ESF grants to extend the scholarship program, which under the Technology Transfer project funds graduate-level education for Tunisians at U.S. universities. The investment will support A.I.D.'s phaseout process while giving evidence of continued U.S. interest in Tunisia's economic progress and helping build linkages between Tunisian and U.S. institutions.

YEMEN ARAB REPUBLIC

We are requesting $30 million in Development Assistance grants for Yemen in fiscal year 1985 and, under a separate appropriation, $5 million in PL 480 Title I to finance rice and wheat imports.

Despite several years of rapid domestic economic growth, Yemen still ranks as one of the world's poorest countries, particularly in terms of quality of life indicators. Beginning in the latter half of the 1970s, real gross domestic product expanded between 5 and 9 percent per annum, fueled primarily by the growth of remittances from Yemenis working abroad and by foreign assistance, principally from Arab donors. The world-wide recession, declining demand for Arab oil, and the Iran-Iraq war have caused sharp declines in worker remittances and Arab donor assistance. Official estimates are that remittances declined from a high of about $1.3 billion in 1979 to $1.0 billion in 1981, but were up 10% in 1982 and in 1983 are expected to reach $1.2 billion. Declining or stagnant remittances and rapidly increasing imports (up 50% during 1979-82 and up sharply in the first quarter of 1983) have caused the external current account balance to deteriorate from a $300 million surplus in 1977 to a $600-$700 million deficit during 1980-1982. The deficit may exceed $800 million in 1983. These economic trends, coupled with a devastating earthquake on December 13, 1982 in Dhamar Province, which reportedly killed or injured 5000 people and left up to 400,000 homeless, strongly suggest that the Government of Yemen will not be able to implement its ambitious development schemes as previously planned.

Aside from some agricultural potential, Yemen's natural resources are meager. Yet there is a reasonable prospect that by building up the physical and human infrastructure, creating and strengthening institutions, mobilizing human resources and further encouraging a dynamic private sector, it will be possible to achieve substantial improvements in the quality of life for Yemeni citizens. In this context, the A.I.D. strategy places particular emphasis on institutional and human resource development and appropriate technology transfer, while other donors, particularly the Arabs, emphasize capital construction projects. Our strategy is manifest in our portfolio of projects, which address a wide range of agricultural problems through a long term, U.S. University, Title XII endeavor with the Ministry of Agriculture; a similar collaborative assistance project in education which will improve primary education and teacher preparation; and a broad-based participant training project to introduce needed technical and managerial skills into governmental and private institutions. The portfolio also includes significant projects addressing health service delivery in the Tihama, the poorest area of the country, village-based development activities -- particularly rural water supply projects--and a new effort to train health care workers in family planning education. All elements of the A.I.D. program are heavily focussed on the technical assistance and training which will help Yemen to achieve self-sustaining development and address some of the basic needs of its people.

EUROPE

For fiscal year 1985 we are requesting $258 million under the Economic Support Fund to address critical economic and security needs in Turkey and Portugal, and to continue a scholarship program in Cyprus.

TURKEY

We are requesting $175 million to continue support of Turkey's economic stabilization program. We plan to provide this assistance in the form of a $90 million grant and an $85 million loan, repayable in 20 years with a 5 year grace period on repayment of principal and 5 percent interest throughout. We expect other OECD donors and Arab nations to provide assistance as well. The Turkish government is showing renewed political courage in implementing its comprehensive and well-conceived economic reform program. It still needs and deserves the support of its allies and friends. We will do what we can to encourage this support.

The Turkish government put into place an economic reform program in January 1980. Although it has evolved in some respects, it remains essentially intact. Its major features include: the maintenance of a realistic foreign exchange rate; elimination of government subsidies to cover operating losses of most State Economic Enterprises; fiscal, monetary and wage restraint; interest rate increases to encourage savings; and liberalization of the foreign investment regime.

The effectiveness of the stabilization program was evidenced in 1981 and 1982. Export growth of 62% in 1981 and 22% in 1982 made possible GNP growth of 4% in each year. The rate of inflation declined from 107% in 1980 to 37% in 1981 and 25% in 1982. However, implementation of the stabilization program slipped somewhat in 1983, resulting in expanded domestic demand and slower growth in exports. As a result, inflation is estimated to have exceeded 30% in 1983; GNP growth was reduced to about 3%; and the current account deficit rose to about $1.4 billion after having been reduced from $3.2 billion in 1980 to $1.1 billion in 1982.

The elections of November 1983 were won by Turgut Ozal, the original architect of the stabilization program. He has already taken measures to restore and sharpen the thrust of the stabilization program. For example, his government has reversed the erosion in the return on savings by raising interest paid to depositors, and has encouraged greater competitiveness in Turkish industry by relaxing controls of imports and foreign exchange transactions.

Turkish dependence on concessional assistance is not as great as it was in recent years. Our fiscal year 1985 budget request reflects this fact, but it would be a mistake to reduce economic assistance further. Turkey is entering a critical period when interest and principal obligations on outstanding debt will rise as the relief provided by recent debt reschedulings diminishes. Balance of payments deficits on current account are likely for the next few years. Although the likely levels are smaller than those of recent years, there is still considerable doubt that the private commercial market will provide all of the financing necessary.

PORTUGAL

We are requesting $80 million of grant funds in fiscal year 1985 under the Economic Support Fund for Portugal. The United States and Portugal have signed a new security cooperation agreement. Under the agreement, a cash transfer of $80 million will be required in FY 1985. As in the past, the Government of Portugal will use most of the funds to advance the economic and social development of the Azores. Additionally, it is expected to allocate up to $10 million in FY 1984 and 1985 for the Luso-American Development Foundation being established this year, whose purpose will be to sustain technical cooperation and exchange between our two countries.

As we informed the Committee last year, the earlier technical assistance and earthquake reconstruction efforts are largely completed and the USAID staff has been phased down to only one A.I.D. officer. Since 1975, A.I.D. has helped in the resettlement of refugees from Africa, provided loans for social infrastructure (particularly housing, schools, sanitation projects and rural health centers), and made a $300 million loan to Portugal for economic stabilization as part of a highly successful multilateral program. A.I.D. is also providing housing guarantees to address the critical housing shortage, and helped with reconstruction following the 1980 earthquake in the Azores.

CYPRUS

A.I.D. requests $3 million of ESF grant funds for Cyprus in FY 1985 to continue the scholarship program initiated in 1981. This amount will bring total scholarship funding to $29.5 million, an amount adequate to finance scholarships for the next decade. No funds are requested for the UNHCR reconstruction activities because the purposes of that program have been achieved.

REGIONAL ACTIVITIES

In addition to these country programs we are requesting $3 million in Development Assistance grant funds and $15 million in grants under the Economic Support Fund for projects which impact primarily on the Middle East. The Development Assistance funds will finance project design and evaluation work (about $800,000) for Near East development assistance programs, and six continuing projects (about $2.2 million). These include: a Science and Technology Information Transfer project, a project to stimulate private enterprise development, a legal education for human rights project, a program of small projects in collaboration with the Peace Corps, a regional environmental protection project, and family planning activities. ESF funds amounting to $500,000 will also support regional population activities.

The balance of our request under the Economic Support Fund will support development efforts in the West Bank and Gaza ($9 million) which are implemented in large part by American voluntary agencies and address needs in such areas as vocational and higher education, community development, land reclamation, improved water storage, and agricultural cooperative marketing. In addition, $5 million is requested to finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors, and $500,000 is required for project development and support activities, primarily project design and evaluation services, related to the development of ESF country programs. Under a separate appropriation, $2,288,000 in PL 480 Title II is requested for programs in the West Bank and the Gaza Strip.

SYRIA

No new funds have been requested for Syria since FY 1979. Uncommitted balances in the pipeline were frozen in 1983 as U.S.-Syrian relations deteriorated, and in November, 1983, laws were enacted prohibiting A.I.D. from making any further payments or delivery of goods and services to the Government of Syria under A.I.D.-financed projects. The laws require that all undisbursed funds be deobligated except for those funds required to complete the training of Syrian students in the U.S. and needed to meet contractors' legitimate obligations and termination expenses. A.I.D. has begun implementing this legislation, and we expect that all funds not required for the forgoing purposes will be deobligated during FY 1984.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you and members of the Committee may have.

NEAR EAST REGIONAL

PROGRAM SUMMARY
(In millions of dollars)

	FY 1983 Actual	FY 1984 Estimated	FY 1985 Request
MIDDLE EAST			
Egypt ESF	750.0	750.0	750.0
Israel ESF	785.0	910.0	850.0
Jordan ESF	20.0	20.0	20.0
Lebanon ESF	150.0 1/	-	20.0
Morocco DA	11.2	19.0	19.0
ESF	-	7.0	15.0
Oman ESF	15.0	15.0	20.0
Tunisia ESF	5.0	1.5	3.0
Yemen DA	28.1	27.5	30.0
Sub-Total Middle East	1764.3	1750.0	1727.0
ESF	1725.0	1703.5	1678.0
DA	39.3	46.5	49.0
EUROPE 2/			
Cyprus ESF	15.0	15.0	3.0
Portugal ESF	20.0	40.0	80.0
Turkey ESF	285.0	138.5	175.0
Sub-Total Europe	320.0	193.5	258.0
ESF	320.0	193.5	258.0
REGIONAL			
DA Regional Activities	4.4	3.8	3.0
ESF Regional Activities	12.5	14.0	15.0
Near East Total 3/	2101.2	1961.3	2003.0
ESF	2057.5	1911.0	1951.0
DA	43.7	50.3	52.0

1/ Supplemental appropriation covering FYs 1983 and 1984

2/ Excludes $12.0 million ESF for Spain, requested and administered by the State Dept. (FYs 83-85).

3/ Does not include other programs (i.e., disaster relief)

GENERAL QUESTIONING

Senator KASTEN. Thank you all.

Senator Rudman, we have condensed the hearing because this afternoon we have the full Appropriations Committee markup. We are going to try to do the regional bureaus for about another half-hour or so, and then switch on to what would have been this afternoon's program.

I will ask a couple of questions unless you have an opening comment of any kind.

Senator RUDMAN. I do not.

U.N. SUPPORT FOR U.S. FOREIGN POLICY

Senator KASTEN. Peter, are you familiar with the report which was issued by the Department of State pursuant to an amendment which I authored last year requiring a report which details the degree of support for U.S. foreign policy by member countries of the United Nations?

Mr. MCPHERSON. Yes.

Senator KASTEN. Ambassador Kirkpartrick appeared before our committee 1 week ago. That report is now available.

I think the most interesting table in that report is the one which pointed out—we have different types of rankings—that group of countries which voted to condemn U.S. action in Grenada, and also refused to condemn the Soviet action in Afghanistan. That group of countries, it seems to me, is pretty unique.

While the report doesn't attempt in any way to list the worst countries, Senator Inouye, in a question to Ambassador Kirkpatrick, asked which are the worst. She never said, "These are the worst countries," but she used that as an example of what we should look to.

It is interesting, and frankly disturbing because a number of the countries on that list receive significant amounts of U.S. assistance, and a number of them are in Africa.

I think Cape Verde, Mali, Mozambique, Uganda, Upper Volta are all on the list of countries that receive assistance from the United States, and yet were in that group voting against us on Grenada, and with the Soviet Union on Afghanistan.

Why should we continue to give aid to these countries in the face of this type of attitude toward the United States?

Mr. MCPHERSON. I note that the countries that you list are countries that receive relatively small amounts of moneys, but I don't think that, obviously, is the point, and neither is it your point.

First of all, I think that the votes at the U.N., and in other bodies where matters of importance come up, need to be taken into consideration. I think that is part of what the American public expects. Congress called for this report, in part, to be able to use this as a helpful guideline in reviewing programs.

What I find, when I look down these numbers every year in making proposals to you—and during the year when we consider reprogramings—what I find is that there is always a multitude of pressures or concerns on each country. You will remember the Zimbabwe matter in recent times.

There were a lot of factors that went into an adjustment of the assistance figure near the end of last year, and one of them was that we had not gotten all of the money that we wanted from Congress for fiscal year 1984. But as has been indicated by the Secretary and others, we think that a relationship is a two-way street, and we were concerned about some of the votes that Zimbabwe cast.

Senator KASTEN. One vote in particular.

Mr. MCPHERSON. There was one vote, but there were others.

Senator KASTEN. The Security Council vote on the Korean 007, I think, was the one that really touched us. At least, that was the one that Congress became particularly concerned about, but there was a whole voting pattern that we were also worried about.

Senator RUDMAN. Absolutely.

Mr. MCPHERSON. On the other hand, it is important to notice how we handled that. Again, I have to put this in the context that we didn't have enough money to go around, so we had to get money from some place, and somebody was going to be affected.

It is important to note how we handled that decrease in Zimbabwe. We took it from the CIP program, and not from the developmental program, because Zimbabwe has been doing enormously well in terms of educating kids. The elementary education enrollees have almost doubled every year, and we had a big education program in that country. We are also doing pretty well with their agricultural extension and other agricultural programs. The cut in the effort, therefore, didn't take from that.

Zimbabwe also has been quite constructive, a number of times, in regional programs and regional efforts. There is, as you know, an ongoing regional concern there. What I find, and the short answer, I guess, is that there is never only one consideration in looking at these programs, and Zimbabwe is almost an immediate example of why that is true.

CONGRESSIONAL CONCERN FOR U.S. INTERESTS

Senator KASTEN. Are you going to be discussing with some of these countries these particular matters, together with expressing the view that at least some in Congress feel that they ought to be more careful about how they deal with U.S. interests in all international organizations?

As you said, it is a relatively small amount of money, but $30 million over the past year or year-and-a-half to Mozambique in emergency assistance, for example—$30 million is a significant amount of money. If they and others are as concerned as they say they are trying to develop better relationships with the United States, it seems to me that there are some pretty simple ways that they can do it, or at least not jump out against us so often.

Mr. MCPHERSON. I believe that it is part of the responsibility of the AID Administrator, sometimes very directly and sometimes not so directly, when I meet with heads of state or other senior officials of governments to talk about these votes, and I frequently do. I think they ought to have in their mind that there is some connection, and that this is a whole and complete relationship.

Senator RUDMAN. Would the chairman yield for a question?

Senator KASTEN. Senator Rudman.

EASTERN BLOC ASSISTANCE

Senator RUDMAN. I am just curious if Mr. McPherson happens to know of his own personal knowledge whether or not any of these countries that the chairman cited receive any form of aid from the Soviet Union, or any of the Eastern Bloc countries.

Mr. MCPHERSON. I think a number of these countries, in fact, have something of a relationship with the Soviets. The Soviets, however, usually have a military relationship, and not an economic relationship. There are, thus, counter-pressures on these countries. The country of Mozambique, for example, has a substantial Soviet assistance program.

I, however, would argue that the Mozambique and Ethiopia assistance that we have given to date, and I think fairly well supported, has been of a different nature than that which we have given to Cape Verde, for example. The assistance to Mozambique and Ethiopia has been disaster assistance, meant to go to the individual people who were starving.

I think the thrust of your question, Mr. Chairman, is on those where we are giving something other than disaster assistance, and I hope my response is in that vein.

Senator KASTEN. You still haven't answered Senator Rudman's question.

If we tally up, and take Mozambique out, you are now asking for $29 million to go to the countries that I just named. So forget completely about the emergency or disaster assistance, there is $29 million going to these countries which voted one way on Grenada and another way on Afghanistan.

Now, what kind of relationship do these countries have with the Soviet Union, is it only a military one, or is the Soviet Union also providing economic assistance? My understanding is that they are providing practically no economic assistance to those countries.

Mr. MCPHERSON. That is correct.

Senator KASTEN. It is our economic assistance and their military power which keep them voting the way they are voting. The Soviet military intervention, and the relationship of the governments that keep them voting the way they are voting in the United Nations. Is that what it is?

Mr. MCPHERSON. First of all, I am in no way defending their vote. I think that it is not acceptable, and I think that it is part of my function as the AID Administrator, and of my colleagues here, to continue, on behalf of the United States, to make it clear that we think these votes are unacceptable.

I think it is also clear that if the votes had been different, and there had been more support for the United States, some of these countries would have gotten quite a lot more economic assistance.

Having said that, I return again to the concept that I am finding, despite the fact that I would love to go in and cut this program off or that program off, that it never ends up to be that simple.

Like Cape Verde, let's say; Cape Verde has a long relationship with Portugal, and Portugal has been rebuilding a relationship there. The feeling is that this can be constructive for the West. And, so it goes country by country.

U.S. ECONOMIC ASSISTANCE VERSUS SOVIET MILITARY ASSISTANCE

Senator RUDMAN. Mr. Chairman, if I could follow up with just a comment.

The purpose to my question, and I have received the answer from Director McPherson, it seems to me that we have a choice.

I am not disagreeing with the chairman, and maybe that is the choice we ought to make, but it seems that what we are doing, with the kind of assistance that we are giving, it is probably more likely that amongst the people of those countries, we might foster the kind of attitude toward the United States than the Soviets might with their military assistance. That is the purpose of my question.

I have the same feeling that the chairman and many of our colleagues have about this kind of vote against us by those governments. But over the long haul, if we are going to compete for the interests of those Third World nations, I would rather give them economic assistance than military assistance.

It seems to me that we have an awful lot of flack, and we will be taking it at 2 o'clock this afternoon, on the request for military assistance for Central America, when we are told to do more in the way of economic assistance. So let the Soviets be the bad guys in those areas, it seems to me. That is my point.

Mr. MCPHERSON. I think, Mr. Chairman, it is fair to say that in the last half-dozen years, and the last 3 or 4 years particularly, there really are some changes occurring in Africa that are important. I don't only mean the recent newspaper report and some of what is happening in discussions in Angola, Mozambique, and so forth. I mean, more broadly, across the continent.

What happened was that the old statist, socialistic policies with which countries came into the post-colonial period, have largely simply failed. The prime sponsors of those policies were, of course, the Soviets, or the friends and allies of the Soviets.

The Soviets, instead of helping these countries, by and large exploited them. They have given them military assistance, and they have not worried about starving people. The have exploited or stolen their fishing rights under some guise of helping them, and the story goes on and on. The relationship with the Soviets in some African countries is just bad in a lot of cases; on the other hand, we are beginning, as a consistent, solid partner to progress, to reap some of those benefits.

We can't be satisfied with these votes, though. I don't think that these votes are satisfactory. I think that the Grenada versus the Afghanistan vote is a classical case where there was a double standard applied. We have got to make that very clear.

I have spent more than 1 hour each with heads of state saying, "If you want me to fight for your program in Congress, you have got to give me more ammunition. You can't do these blatantly anti-American kinds of inconsistent things."

Senator KASTEN. Thank you.

That is exactly the point that we are trying to establish here, and we have spent longer than we should have. This is just one element, one part of what the Secretary of State called a useful tool, one of a number of useful tools. We last year put that useful tool into the law, and we just want to make sure that people are aware of it.

Mr. MCPHERSON. I understand that, Mr. Chairman.

ECONOMIC POLICY INITIATIVE FOR AFRICA

Senator KASTEN. I appreciate your understanding.

I want to shift to the economic policy initiative. In the main volume of the congressional presentation document, in the justification for the economic policy initiative for Africa you say the following:

> The economic policy initiative is a targeted instrument. By focusing on the sectoral level policy framework and on the implementation of sectoral reforms, it is concerned with the transmission of economic signals emanating from macroeconomic stabilization efforts to individual production units.

Mr. MCPHERSON. We are very good at long sentences, Mr. Chairman.

Senator KASTEN. I would like, with that kind of introduction, to give you, and possibly Mr. Love, an opportunity to just in simple words explain to this committee what you are talking about.

Mr. MCPHERSON. I would love to, because this has been something that within the executive branch, I worked on long and hard for months.

Senator KASTEN. I just wanted to make sure that you had the right kind of introduction.

Mr. MCPHERSON. That sentence refreshed my recollection quite completely. Thank you.

What we have in Africa is a continent that is getting about $10 billion a year in assistance. Yes; it needs money, but in a lot of ways it needs that money to be better spent. During the 1970's, especially, we in the United States, as well as the other donors, tended to look at our African efforts as charity efforts. We treated them that way. We had resource transfers. We tried to give them health services. We tried to give them fertilizer.

We tried to give a lot of things, but there was little concern about economic growth, relatively; some, of course, but not as much as there should have been. The donors, including us, spent almost no time—although that may be a little harsh—little time on trying to get these countries to basically face up to major policy decisions that had to be taken in order to get economic growth.

We just know that it doesn't make sense to give countries fertilizer to increase agricultural production if the basic reason agricultural production isn't increasing is because they are holding the farm-gate price down very low. We just didn't focus on the right thing a lot of the time in the 1970's.

We have spent a lot of time in the last 3 years working at that, and I can point to some places where I think there has been some major successes, in part due to things that we have done. The international depression was of major help to us because it shook things up—as I mentioned a while ago—and it made people receptive to change in a fashion that they hadn't been before.

FLEXIBILITY

Now what we have done is say, all right, that is consistently our policy with our dollars, but let's give us a very flexible tool to use to help this along even more, and a flexible tool which we can coordinate with the World Bank and the other donors, with the possibility of focusing even more resources. Resources of ours, thus, can be used country by country as a lever to get additional moneys from other donors.

The Italians, for example, have got a large new foreign aid program. I am not saying that they have committed anything, but I know that I can go to my Italian counterpart and talk to him about about country *x* that is doing major things, and can he work with us.

In short, this economic policy fund is a fund that can be used to help out countries that are really going to help themselves. This is the classical self-help approach, with a little bit more flexibility for us, but flexibility not intended to, in any way, avoid the full congressional involvement as the countries come up for assistance.

Let me give you an example. Madagascar right now is doing some excellent things, and we don't have much of a program in Madagascar. There isn't a lot of money to give to Madagascar right now. Let's say that the Madagascar of 9 months from now—there would be somebody who is in the process of doing something that we could encourage to do more—I would like to, in consultation with this committee, have a lever of $10 or $15 million to help them along, to encourage them. Because these policy changes are disruptive and politically costly sometimes, and money used a certain way can reduce the political danger in making these important changes.

COUNTRY FOCUS OF EPI

Senator KASTEN. Let me just follow up. In the justification to us for Africa, you say, "AID, to the extent possible, will use ESF, and non-emergency Public Law 480 as"—these are your words—"negotiating instruments to achieve policy reforms which will promote economic stabilization as has been the case in Sudan and Somalia——"

Mr. McPHERSON. Absolutely.

Senator KASTEN [continuing]. "and as a means for relieving severe foreign exchange restrictions."

Mr. McPherson. Absolutely.

Senator Kasten. Right now, and our list might not be complete, but I can make the point, the following countries are among the ones that are slated to receive economic support funds under your budget proposal for 1985: Botswana, Djibouti, Kenya, Liberia, Niger, Senegal, Seychelles, Somalia, Sudan, Zaire, Zimbabwe, Zambia, Southern Africa Regional, and Chad.

It is my understanding that right now you are not prepared to tell the committee which countries might receive funds out of this new fund that you envision. Can you at least tell me that none of the countries that I just named would receive funds out of the EPI programs under consideration?

The point that I am trying to make, obviously, is that I think that we are overlapping. Let me just go on and this will be quicker. In the justification material for the EPI, you say, "We do not expect to utilize these funds in less than 5 nor more than 10 countries."

You also say because "of the nature of the criteria for receiving funds, countries that could participate in the initiative have not been preselected."

It seems to me that you already have the tools in ESF, and in fact you state in your justification for ESF and Public Law 480 that those are the goals that you are trying to reach, and yet you are telling us that you need another fund, which is $500 million over 5 years, and the program is in very vague terms.

It seems to me that you have what you need if you use it. In fact, I am pleased that your justification for the Public Law 480 and the ESF says that this is the direction that you are trying to go in.

I just wanted to combine all of that, because after we will go on to another section.

COUNTRY SELECTION PROCESS

Mr. McPherson. I knew that you had some questions of this nature, and I wanted to really talk to you about it.

I would not want to exclude absolutely from involvement in this initiative a country that currently is getting, or will get under fiscal year 1985 proposals, ESF. But I frankly don't, at this time, envision any one of those countries being recipients. They are certainly not the primary target. I don't want to absolutely exclude them, but they are not the countries on which we are primarily focusing. In short, there is minimal, or possibly no, overlap.

It is true that in Sudan we are using our ESF and Public Law 480 title I to the maximum extent possible to get these policy changes, to support the IMF, the World Bank, and so forth. But there are a lot of other small countries, and some bigger countries, that don't have an ESF or even a Public Law 480 title I program. It is in such countries that we would like to be in a position to have some flexibility in advance.

I mentioned Madagascar as a country where, if we had had this last year, we would have helped. Uganda is another country into which we have very little money going, and there are still some civil disturbance problems there, but they have done an awful lot in that country. Burundi, for example, has made major changes, and there is no ESF there and no security reason—no typical ESF kind of reason—to have such assistance in Burundi.

We haven't preselected the recipient countries because we don't know, this long in advance, the countries into which we would like to put it. We can't tell who is going to be in a process of making that many changes. On the other hand, and this is the nature of the process, I understand that in the ordinary course of events we need to tel! you who will be receiving the assistance. But, what we want to take is a small chunk of the whole money for Africa and have it set aside.

What is being proposed in the House Foreign Affairs Committee, and I think that it is just fine, is that 30 days after the enactment of this legislation or the beginning of the new fiscal year, whichever is later, that we provide to the full committees, on some sort of confidential basis, a list of countries that we are thinking about and some sort of economic justification as the basis for our thinking.

We would then in the ensuing weeks and months, perhaps, work through that list. Then, before we would actually disburse money there would be a congressional notification, each committee having an opportunity to look it over.

POSSIBLE UTILIZATION OF EXISTING FUNDING MECHANISMS

Senator KASTEN. What would prevent you from using the existing funds, the ESF, Public Law 480, or whatever, and simply try to gear some of those funds into those countries through the programs that already exist, and go through the regular process?

Mr. MCPHERSON. I know the problems I have in trying to reprogram anything. Funds are already spoken for when they are programed, and there is political pressure not to move them. We sometimes do; in fact, sometimes people think we do a lot of reprograming.

As a matter of fact, when I move funds from country to country, politically it is just very difficult to get it done within the executive branch, unless there are unusual national security concerns. The economic policy concerns which we will address with this initiative, by the nature of things, don't have the sort of political engine behind them that allows us to be able to easily reprogram from country to country.

Senator KASTEN. There are going to be some other questions on the record on this point in terms of the differences and the flexibility, and whatever congressional oversight there is going to be on these funds, and maybe we can work this thing through.

Mr. MCPHERSON. We would love to work out something acceptable to your interest of really being involved, because we think, frankly, that this won't work in the long term unless Congress is involved.

ZAIRE

Senator KASTEN. Of all the African countries, in my opinion, the one that has been the most helpful is Zaire. We have attempted to secure the necessary foreign assistance for that country, but opponents of that assistance continue to make charges of corruption, the latest being a weekly television program on Sunday.

I know that there have been some problems with corruption in Zaire in the past. Frankly, I don't think that they are significantly different from the problems that we have had in a number of the other countries. It is my understanding that there has been marked improvement in Zaire over the past year or so. What can you say about that matter?

Second, last year, we discussed the IMF negotiations and your intention not to disburse any funds to Zaire until an IMF agreement had been reached. It is my understanding that such an agreement has been reached, therefore, I assume that the funds have gone forward.

Can you give me kind of a thumbnail on Zaire, and what is the situation with the IMF negotiations, and the funds?

Mr. MCPHERSON. It is true that, in the last year or so, we feel that the situation has substantially improved. There appears to be some reduction in corruption. There currently is progress in economic reforms. We think that the pressure on Zaire to make these changes has been because of the international economic situation, the price of copper, and so forth.

We think we can point to some real progress. We think that, because of that progress, we should be providing a reasonable amount of assistance, and our figures for fiscal year 1984—including the drought assistance, DA and ESF—will be a few million larger than it was in fiscal year 1983.

On the exact status of the program, Ray might want to talk about disbursements.

Mr. LOVE. I think the corruption issue and the IMF issues are very closely related. The reforms that were initiated last fall with the IMF included a very substantial liberalization of the government's control over the economy, the freeing up of the marketing of agricultural goods, a devaluation of the currency, and a freeing up of foreign exchange.

The establishment of a realistic foreign exchange rate, and the reduction of the government's role in the economy de facto helped to minimize some of the opportunities for corruption, particularly the manipulation of access to foreign exchange. From the approach of broad economic reform, I think the government has taken some very, very substantial steps to remove some of the inherent incentives for corruption.

Similarly, in discussions with the World Bank on the reforms affecting major copper exports, efforts have been made to bring export controls on their major commodity under control so that the opportunities to manipulate a particular sale or export have also been reduced, in conjunction with the IMF reforms.

Both of these reforms, I think, are significant. Rather than looking at some of the punitive aspects of individual cases, they have sought to improve the climate and minimize the situation with respect to corruption.

We are looking in both fiscal year 1984 and fiscal year 1985, to introduce an ESF component that we think can be managed effectively by directing it, basically, toward the private sector and, predominantly, toward American firms that are operating there, such as General Motors and B. F. Goodrich Tire Co., to help some of the logjams in the transport sector.

We are confident, I think, that we can monitor both the foreign exchange allocation under those programs, and local currency generations, to insure the general activities themselves are also managed in a manner that will minimize, if not totally eliminate, incentives for corruption.

Mr. McPherson. It is fair to say, though, Senator, that we think that it is important to continue to watch the situation in Zaire. We would be naive if we didn't think that we had to keep on being careful with it, and fully informing Congress as we went along. Because there have been substantial problems in the past, the U.S. taxpayer and the Congress that appropriates this money deserve every bit of attention we need to give it.

AFRICAN DEVELOPMENT STRATEGY

Senator Rudman. Let me direct your attention to page 4 of your statement, Mr. Love, if you have a copy of it there.

I am particularly interested, and I would direct this both to you and to Mr. McPherson, at page 4 of the statement, the second paragraph starting with the words "To address the problems we encounter," and following on to the next paragraph.

I wonder if we might just discuss that with more specificity, particularly in light of the fact that in the new economic initiative for Africa, you are suggesting better ways, not just, to use your words, "put a Bandaid on the problem," as you have discussed it with me in my office, but to try to get to the root of the causes of the problem. Rather than doing it with just your own programs and people and with their bureaucracies, maybe realizing, as I guess you do, that the private sector in some cases is able more efficiently to do the things that you want to do.

Tell us a bit about the methods that you are going to employ there. They are discussed here in general terms, but I wonder if you might give us some more specific idea of what you are talking about.

Mr. Love. As you know, in the testimony during the last 2 years, we have stressed that the critical need in Africa is assisting those countries that are making policy reforms. This is handled, I think, in probably two distinct and different approaches.

MACROECONOMIC REFORM

One is the broad macroeconomic reform that is basically driven by the IMF process, which has had very significant successes in certain countries, like Uganda, in restabilizing the economy. We think that there has been some progress in Sudan, some progress in Kenya, as well as elsewhere throughout the continent.

We see an increased realism on the part of the Africans to begin to make reforms at the macro level. I think we have also felt, as we have gone through this process, that the IMF process does not get down into some of the root problems at the sectoral level, particularly some of the root problems within the agricultural sector which we think are inherent to the deplorable decline in agricultural production.

Senator RUDMAN. That is what I am specifically directing my question to. I wonder if you might tell us what some of your thoughts are as to what we are going to do in this area.

AGRICULTURAL SECTOR STRATEGY

Mr. LOVE. I think there are a series of problems, and potential interventions, that we have been talking about during the course of the last 2 years that we would like to bring into focus in the context of the EPI. One is encouraging these governments to go further in terms of basic reforms, in terms of their marketing, their price supports, their subsidies in agriculture.

We feel, basically, that the small entrepreneur in Africa, who is essentially a small farmer, has not gotten the price incentives necessary for his production, and this has been one of the major problems with respect to agricultural growth not taking place. The pervasive government roles of the marketing boards inherited from the British and the French have been, I think, very strong factors in distorting the market mechanism.

We now see throughout Africa, where the countries were British colonies, French colonies, or recently socialist, a realization, I think, that the government has got to back up and get out. They can't afford the cost of supporting these parastatals, and they can't afford the indirect cost of the policies that are emanating from the parastatals.

So there is a willingness, in many different ways, for the governments to say, "OK, we are prepared to start withdrawing or backing out, and modify the role of the parastatals."

SENEGAL

Mr. McPHERSON. Why don't you give him a country example. Take a country like Senegal.

Mr. LOVE. In the case of Senegal, the government had made the decision 2 years ago that they were going to begin the divestiture of their regional development parastatals, which at that time were involved in providing imports to the farmers, trying to provide extension work to the farmers, trying to buy the products, set the support prices, import the fertilizer, et cetera.

They were not doing a very good job of it; they were going bankrupt in the process, and the farmers were not getting the required support. Senegal then launched on a policy to begin to cut back on these parastatals, try to open up the marketing to some cooperatives, open up the distribution of fertilizer to the private sector, and try to free up the marketing of the crops themselves.

That is a very, very ambitious program. It is also a very expensive program, and it is going to take some help in bringing the private sector along so that it can, in fact, pick up that burden, because they have been discriminated against in the past.

Mr. McPHERSON. Let me make a last comment about Senegal. Senegal is a classic case of what I think we are going to see more and more of. Here is an economy that was one of the more statist in the world. There was a fair amount of freedom, but it was a statist, very tight socialist kind of economy. The IMF came in, and they worked on an agreement. The government decided to make a certain number of reforms, but there is no underpinning to the macroreforms.

So, you get your exchange rate right. You begin to get your budget back in line, and some other things, but there is nothing beyond that. There isn't much of an entrepreneurial history. There isn't the trained person power needed to pick up on the reforms. Thus, one of the big things that AID ought to be working on—and we are—along with the World Bank and others, is to follow these macroreforms by the IMF with what I call policy dialog.

Mr. LOVE. There are other countries, I think, where similar types of reform have been initiated. In Zambia, through our past programs, we have been able to encourage the government to effectively eliminate most of the subsidies in fertilizer, and substantially raise agricultural support prices. The marketing board has also divested itself of some of its roles in marketing. It has been a very steady and encouraging progress.

PRIVATE SECTOR INVOLVEMENT

Senator RUDMAN. We have a very capable and willing U.S. private sector in many of the areas in which you have concerns. Going back into the history of your agency, the agency attempted to set up programs, some worked, some didn't.

Now you appear to be moving in a different way in this initiative in Africa. Are you planning to try to get more U.S. private sector assistance because, after all, they seem to do it very well in the agricultural area? Is there a way to do that, I guess, is my question.

Mr. LOVE. We would certainly like to do that. We think that the creation of a viable indigenous private sector in Africa is basic over the long run to increasing investment opportunities for the U.S. private sector.

In some cases, the changes that I think will take place with the modification of the parastatals will open up opportunities for relatively small entrepreneurs, such as the small truckdriver. Small entrepreneurs will be able to move in with a little bit of capital, and begin to assume the private sector role. That is happening throughout many parts of Africa.

We think that our primary objective in the private sector is to focus on the indigenous groups. We are attempting to look at opportunities where large U.S. firms can, in fact, invest in Africa and begin to help in this process. For example, when I was in Rwanda last month, we visited a tea plantation which is 51 percent owned by American investment; it is the only privately controlled tea plantation in Rwanda, and it is the only one that is making a profit.

Senator RUDMAN. That, of course, is precisely the point.

Obviously, whether it is U.S. investment or other investment, the fact is that the private sector, in terms of agricultural development in these countries and resource management, is incredibly better suited to do that, provided, of course, that the agency sets up the framework and the funds that are necessary to do it. That is, I hope, the way you will go more and more, because in every instance that I have seen where that has been done, it tends to succeed.

Mr. MCPHERSON. That is what we are about, but I don't know whether we have communicated that effectively.

Senator RUDMAN. I think you have, and I think that it is important that the message get out because there is a great disincentive in these countries. Certainly, we look at starving people, and we feel very good about sending big bags of flour and grains of various kinds stamped "From the USA-AID," and that is great to help the people get through that particular period of the drought, but that does very little, in fact it is a disincentive, of course, for them to build their own agricultural base.

That, to me, if you look at the long term, is where we ought to be going. I expect from what I read, and from what you have told me privately, that that is precisely what you are trying to do with this new initiative, and that is why I asked that question.

Mr. Chairman, I am through with that line. We were just talking about how they intend to differ this initiative from the other programs.

Senator KASTEN. Let me switch parts of the world for a second.

MONITORING OF PHILIPPINE PROGRAM

The subcommittee, over the last year or so, has expressed some concern over the way the Philippine program has been managed. We have been especially concerned that funds going to the Philippines be monitored closely. As you remember, we expressed some strong concern over the school budget where AID, seemingly at least, lost track of some money for that project.

I am making these expressions once more because I strongly support the economic and military programs, and I think the committee does too, for the Philippines. But it is critical that we don't see mismanagement, fraud, or waste start to erode support for the programs there.

There was a recent Washington Post article, for example, I have a copy of it right here, and also, I understand, a GAO report, both of which are raising flags and continue to be critical of the programs.

Can you give us an update on the measures that you have taken to insure full and complete control and monitoring by the Agency of the programs and the projects in the Philippines, and possibly even be able to react to one or more of these newspaper articles?

Mr. McPherson. Sure. Let me make a comment or two, and then Mr. Greenleaf may want to expand upon them.

You remember the discussion that occurred between yourself, the committee, and AID concerning the accounting procedures—basically the question of whether or not moneys should be disbursed in advance of actual programs. It ended up that the question really was whether there should be something of a balance-of-payments component involved in some of that rapid disbursement type of activity.

I think that we came—in conjunction with the Embassy, AID, and you and your staff—to a careful and detailed agreement on how that would be done. It is my understanding that all parties believe that the agreement satisfactorily addresses the questions raised. It is now up to us to make sure that the terms are adhered to consistently. To my understanding, that is being done, and there certainly are expectations that this will continue to be the case.

In terms of the I.G. and GAO reports, what is suggested in them is that a central agency of the government—an agency in which Mrs. Marcos is deeply involved—in effect, controls the whole program. What actually happens is that the moneys, figuratively speaking—not even in actuality—flow through that central agency into the various ministries, and our programs are implemented with the respective ministries.

I feel, in short, that the program is the way Congress intended it to be, and that we are doing the right kinds of things with it.

GAO AUDIT

Mr. Greenleaf. I would like to follow up on a couple of points.

You mentioned the GAO, Mr. Chairman, and it is true that there was a GAO audit. There also was our own Inspector General's audit of the Philippine ESF program and, in particular, the first project that was set up in this series of projects, namely, the schools that we have built over the past several years.

I think that it is important to point out that, although the GAO audit raised some questions, the audit also said that there was no evidence whatsoever to suggest that there was any misappropriation or misallocation of funds. The report did talk about procedures of financial management which they thought ought to be somewhat more rigorous.

The GAO made a number of other points that we felt, in many cases, were helpful and have enabled us, along with the suggestions of our own I.G.'s audit, to work on the procedures that were recommended in this schools audit. In fact, as Peter McPherson said, we have come to an agreement on a joint use of the accounts. The accounts are controlled in a much more meticulous way than they had been. In fact, as a result of this, the Inspector General withdrew his questions about this audit back in November.

We have come together with the Filipinos to agree upon the financial procedures, not only for that project, which is finishing up, but for all the projects in the ESF first package. This package ran for a 5-year period, which is ending in 1984, and we are now embarking on negotiations for a new package for 1985 to 1989.

So, the questions asked by the GAO—which I think were very helpful—as well as the I.G., are not only applicable to that one project, but to all of the projects. We feel that this is well in hand, and we will be happy to provide you—as we have after discussions with you and your colleagues on this before—with further updates on the management of the account.

A quick comment about the second point that Peter McPherson discussed, namely, the overall oversight of the program in the Philippines. The Ministry of Human Settlements is the coordinating agency, as Mr. McPherson mentioned. But, as he indicated, the line agencies, the public works agency, the energy agency, the agricultural agency, and so forth, are the agencies that actually run the programs.

There is a committee made up of the chief officers of these other ministries, which works together with the Ministry of Human Settlements to coordinate the funds. So it is very much a joint Filipino Government operation that we are working through, and we feel, quite honestly—as we come to the end of the first 5-year program—that the system that is set up is a rather good one.

We have an excellent working relationship, not only with the Ministry of Human Settlements Secretariat, which runs this program, but also with the individuals in the line ministries that are really involved in the projects themselves.

Senator KASTEN. I am pleased with your response.

We do want to continue to work with you, understanding that this committee is generally supportive. What we will try to do is to work with you to make sure that we have a program that all of us can enthusiastically support.

Over the past couple of months there has been more and more bickering, so what you have to do is to get your story out a little bit more effectively, possibly, and you could be working on that.

Mr. GREENLEAF. Thank you.

THAILAND

Senator KASTEN. Thailand is the only country under the Asia Bureau which is receiving less in 1985 than was provided in fiscal year 1984. I am concerned about this because that country not only has been especially close and helpful to the United States, but also finds itself today with a very hostile force on its border. Why do we end up with this treatment of Thailand?

Mr. GREENLEAF. In fact, the figures are $32 million versus $34 million, so it is a small difference. The programs do, I think in all cases, go up and down slightly depending on the level of the projects that are available. We basically feel that, even though you are correct, Mr. Chairman, that the figures for Thailand have gone down by $2 million from 1984 to 1985, we plan a continuation of our program there. In terms of the levels, I think this is a 1-year minor change.

At least in the foreseeable future, I don't see a change of levels for Thailand. What I do see, however, is a transition. Thailand is approaching a middle income status now in terms of its per capita income, and we see ourselves getting much more involved in Thailand, perhaps more than any other Asian country—maybe more than any other country that AID deals with—in working with science and technology dealing with rural areas and poor people, working toward involvement of the private sector, particularly the Thai private sector, and moving away from some of the infrastructure projects that we have done there over the years.

The country is, quite honestly, changing very rapidly. We feel that the program is in a transition phase. Oftentimes, when a program is in a transition phase, there are small changes in the funding amounts as projects phase out and new projects start up. This is essentially what is happening. I don't think the fact, as you pointed out, that there is a $2 million difference is significant in terms of levels.

Senator KASTEN. That is a question that we will also submit for the record.

Going through what is happening within the program, you cut the agricultural program significantly, and yet we have over the years said how important the agricultural programs are there.

Mr. GREENLEAF. That is right.

Senator KASTEN. I am going to give you an opportunity to respond to that changing mix. You have gone up in development, and you have gone down in agriculture. It seemed to me to be contrary to the goals that we had talked about before. We are going to submit questions on that mix to you for the record.

Mr. GREENLEAF. It relates to my point about the transition program, and we will be glad to answer those questions.

Senator KASTEN. I assumed that.

CENTRAL AMERICA

Switching quickly to Latin America, you said in your statement that programs in Central America have tended to be implemented fairly quickly compared to other regions of the world.

Do you mean that we have a smaller pipeline there, and we are getting the cash through, or why did you make that statement?

Mr. MCPHERSON. The program in Central America in recent years has grown substantially, and a sizable percentage of that has been in effect balance of payments, with fairly rapid disbursing. The major problem in the region was to try to achieve economic stabilization, hence the need for the balance of payments effort.

We think, in fact, when you look at the impact of that effort, that it has been pretty good. In Costa Rica, in 1983, there was a very modest growth, and we expect further growth in 1984—and that was after a drop in economic growth of something like 25 percent in 1979. El Salvador has had an even greater drop, and in 1983 it appears that there was a stabilization of the situation. In short, economic stabilization had really begun to occur. Hence, the need for this rapidly disbursing money appears to have begun to address the key stabilization needs.

GOVERNMENT MANAGEMENT CAPABILITY IN CENTRAL AMERICA

Senator KASTEN. In your statement, in the discussion of the capacity to see that the Central American countries do productively use the higher level of assistance, you refer to the management capability of a number of those Central American governments. Essentially, you are upbeat about their improvements and about their ability, a whole lot more upbeat than a lot of the people we have been reading about in the newspaper.

Mr. MCPHERSON. Yes.

Senator KASTEN. I am not an expert on all the details, but it seems to me that your assessment really flies directly in the face of some of the GAO reports and of the AID Inspector General.

I am sure that what people have done is take the most negative parts of those reports out, and have not included the more balanced reports. Nevertheless, we are having significant problems now—the Secretary of State received a significant number of questions on that—on the overall question of management of our resources and on our programs in Central America in particular. We have had, as you know, substantial program increases.

I think we need more than hopeful, wishful generalities on this subject, and we are going to be looking to you and to others for specific examples of where things have been fixed, if they were broken, and where they are going well, if they are not broken.

It seems to me that in the congressional atmosphere that we are working with right now, an awful lot of people are going to pay an awful lot of attention to the GAO and AID criticisms, and we do wonder about the management capability of these Central American governments.

I would like to give you a chance to elaborate on that now, and then perhaps you can provide more detail to us, and you are probably going to have to do it on an ongoing basis. But if you could just touch on that for a moment right now.

Mr. MCPHERSON. Yes; I look forward to this opportunity because I think there is some misunderstanding. As the whole El Salvador issue has heated up, it is certainly true that the media has taken a new interest in this topic and, frankly, I am finding that some of it is very helpful, and some of it doesn't fully understand what is going on.

Those audit reports are ones that management initiates, usually to get further help and to understand what is going on. It is like any other private business, you call in your auditors, and auditors inevitably have some suggestions on how to improve it. That is what they are supposed to do, and that is good. Ordinarily we work through those recommendations, close them out, and everyone is reasonably satisfied.

FOOD DISTRIBUTION IN EL SALVADOR

The kind of things that I am finding in the newspapers, not always, but too frequently—for example, the Christian Science Monitor had a story earlier this week in which they said that the food wasn't being distributed to the displaced persons in El Salvador in the manner in which it should. We went down that story line by line, checking back, working through, and found it, frankly, to be consistently off the mark.

An example, which was almost humorous, but it makes my point, is that the author said, "I know the food is not getting out there because I went out to those villages, to those displaced person camps, and I asked the people for the card that they have, their food card, and the date of the latest delivery is on the card. So you can tell, and the last delivery, I think, that was shown on the card," the person reported "was October." There was clear and positive evidence.

What he didn't understand is that there are two cards, and there are two cards because of the way the food is delivered. The people that he talked to, apparently, just showed him one card. If he had looked at the other card, it would have shown a later delivery date.

Without trying to criticize the reporter, although it is true that we did talk to him, the facts are that it just doesn't seem like he looked at the situation properly and, too quickly, he was willing to believe that there were problems. A substantial portion of the time that we run down these questions we find a two-card operation.

One of the broader discussions, or a more commonly discussed matter, was the idea of whether or not we knew where all of the money was going that went to El Salvador. We have for some time, as mentioned earlier, provided balance-of-payments assistance to El Salvador in an effort to stabilize that economy, an effort which has basically worked. Nevertheless, the question was that GAO said that they don't know where all of the money is going.

ECONOMIC STABILIZATION EFFORTS

IMF, as a matter of fact, doesn't know where all of their money goes either when they go in with a stabilization effort. That is the nature of the program. You put your money into a Central Bank, and you don't know how every dollar is spent. If you want to know where every dollar is spent, then you go into a CIP effort, a commodity import effort, but that ends up moving away from a stabilization, quick disbursement effort and into a longer term kind of program.

So, I think that there was some fundamental misunderstanding of what we were trying to do and the nature of the tool. In Israel, Jamaica, and a number of other countries around the world, we have that kind of effort. There are some things that can be strengthened in that effort, the price-checking unit in the El Salvador Central Bank needs to be strengthened, as well as some other things, and we are in the process of doing that. But I think, basically, the media and others didn't really understand what the tool was, a tool that has been in existence for 20 years or more.

Senator KASTEN. The tool being the audit?

Mr. MCPHERSON. No; the tool being balance-of-payments assistance.

Senator KASTEN. The tool being the stabilization effort?

Mr. MCPHERSON. Yes; they confused economic stabilization efforts with commodity import programs for projects. Because there wasn't the same kind of knowledge of what the dollars purchased that there is in projects or commodity import programs, they said that this was wrong. My best parallel is to say that the IMF doesn't track its dollars in a manner such as a commodity import program either.

Senator KASTEN. I want to call on Senator Rudman because he has some questions on Latin America, but let me just state this.

No. 1, we are going to be working with you on this whole set of issues because, once more, I think it is important that you get your act together where it is not, and that we let people know some of the things that you are saying here.

I think it is interesting, though, that there is another side of this coin. There was an article in the Wall Street Journal on Honduras, and AID is being criticized in that article, and I quote, for imposing an "intricate system of vouchers and counter-checks—far more stringent than that of other donor countries—in an attempt to hold down waste and theft." So here we are in that case possibly building up an overlapping redtape bureaucracy, et cetera, and you are damned if you do and damned if you don't in a way.

But we want to work with you on this area, and I think it is very, very important that the improvements that are suggested are, in fact, made. Then we can explain to people that we do have a pretty good sense of where the dollars are going.

Senator Rudman.

HONDURAS

Senator RUDMAN. Thank you, Mr. Chairman.

I am going to have to leave in a few moments, and I had one question on Central America, and one on another subject, which I will raise at this time, if I may.

First for Mr. Brown, I look at your statement, and on page 5 of your statement, you talk about Honduras. I think that one of the problems we have in the Congress and in the country and in the media is that we tend to all talk about Central America as some sort of a homogenous region, which, of course, it isn't. Each place is quite different. I think a great example of that is Honduras.

We were there two weekends ago for very extensive travel throughout the country, and I had followed that for some time before. Honduras is quite different. It has a relatively free press, at least to the extent that my reading of it. Their press, when I was there, would indicate that there was strong opposition in the press, as well as press favorable to the Government.

They do have an elected Government. Curiously, they have free labor unions and farm organizations, and most of the land is owned by the farmers themselves, but it is a very poor place. It is the poorest in the region. They have virtually no road system. They are just accomplishing the beginnings of a deepwater port.

They are absolutely in total fear of Nicaragua, and I am talking about the peasants that I talked to, the farmers, the Government, everyone. They are just very concerned. They have a 6,000-man army, and they are looking at colossus across the border.

That is the kind of place where we really ought to try very diligently to help, and what they need very early on is a lot of economic assistance. One of the things that the people in their Government told me is that they are in a kind of catch-22 situation, with both IMF and with AID, and they were working on the problem with you.

The point they made was that because of the poverty in that country, the lack of resources, they have been unable to meet some of the criteria that IMF would want them to meet, politically in some cases, it is just impossible to meet those criteria. If they don't meet those criteria—those are the same criteria that you set, if you will, as a prerequisite for certain AID programs.

As you know, I talked to your Director down there about the problem, and I would like your reaction to how we are going to deal with this, because frankly if we wait too long, and require them to do things which they politically in an infant democracy don't think they can do—we are not talking about human rights now, we are talking about altogether different things—then it seems to me that it will only be a short time before we start seeing insurgency there, which is now at a minimum.

There is a minimum of rightwing activity, a minimum of insurgency, and certainly in many ways a great chance for us to succeed in a country that wants to succeed. What can we do to streamline the programs that go in there, and not to hang them up on some criteria that maybe ought not to apply there?

HONDURAN DISBURSEMENT STRATEGY

Mr. McPherson. We are in the process, and I think fairly far along in it, of working out with the Honduran Government a method—sort of a tranched disbursement of our fiscal year 1983 assistance—which will look to them to make progress, but not necessarily to get an IMF agreement in place.

Senator Rudman. You said, "1983 assistance," so some of the funds are being held back.

Mr. McPherson. That is exactly right.

Senator Rudman. I think that that is ironic, if I might just say that. I don't say that critically, but it is ironic, in an area that has more in the way of free institutions than some of the other places, certainly than El Salvador, it seems to me, and it is the poorest of all. So I hope that you might be able to move this along more rapidly.

Mr. McPherson. It is true that both in Costa Rica and Honduras, at different times in the last 3 years, we haven't disbursed as rapidly as we had the authority to do so because they were not making the economic changes we thought they needed in order to have the whole effort come together.

It is a delicate balance. You don't want to do anything politically embarrassing, but at the same time, you don't want to give them money which would allow them to not have to make the needed changes.

Senator RUDMAN. Yes.

Mr. MCPHERSON. I think that we have been fairly sensitive to exactly the point you are making, and in the last few weeks we have worked out a method to tranche this money, so that they can have some money in the immediate future.

Senator RUDMAN. Let me just make an observation.

We have this set of criteria, and correctly. I don't say that you should not have the criteria.

Mr. Chairman, I think what I am trying to point out, when we get to El Salvador, the place is in big trouble. It is kind of like, to use an old expression of a former very prominent member of this body, Richard Russell, of Georgia, who wrote once about Vietnam that we were "like a cow in a field that tried to cross a picket fence. We got hung up on the fence, and we couldn't get in and we couldn't get out. It was just sticking in our stomach." That is my view. That is my analysis of El Salvador right now, whether you agree with that or not. Yet, we do what we have to do.

We have a $90-odd million supplemental request coming up this afternoon before the full committee, and we won't be talking about any of these criteria because we all know that there is plenty wrong down there. Yet, over here, the AID program in Honduras, which has a minimum of insurgency, which has some democratic institutions, which is trying, we have these criteria, and I think that that is a totally different standard, but I understand the reason.

I won't dwell on it except to say that it seems to me that in that very poor place, we ought to do all that we can to increase our economic assistance so that we can hold down our military assistance at a low level, and thus do the very thing that the critics of our foreign policy tend to accuse us of.

Mr. MCPHERSON. Senator, that is what we are trying to do. We are disbursing some, and working with them to make the economic changes so that they can have the growth which will prevent an insurgency from occurring there. We have got to be sensitive to the political reality of the proximity of Honduras to El Salvador, and so forth. We can tell you more about what we have done in detail.

LABOR ORGANIZATIONS IN HONDURAS

Senator RUDMAN. Jim Bond just passed me a note that indicates that the AFL–CIO in this country states that the labor organizations in Honduras are very good. I happen to know that of my own knowledge because I met some of those labor leaders.

You know, here is the kind of thing that everyone is saying we ought to get El Salvador to do, and we have it existing there. I am not sure how much time we have down there, because of the insurgency possibilities all around, and that is my point.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

My last question, Mr. Chairman, if I may, and I would like to have a brief answer. I would like to discuss my favorite international bureaucracy with you, and ask you how IFAD is doing recently?

Senator KASTEN. Good, I won't have to ask that question. [Laughter.]

Mr. McPHERSON. Well, IFAD, pursuant to the great interest of this subcommittee, has held its staff size to, fundamentally, where it was before. I think there was a modest increase that came from a former Comptroller General of the United States recommendation. The first replenishment will have, if Congress appropriates what the administration has asked for, $40 million left to go at the end of this year.

The negotiations on the second replenishment have begun. There have been two meetings, the second one having been just last week. The United States has gone to those meetings and taken the position that the OPEC countries should put in 50 percent of the second replenishment. That is the position that we have taken.

It is true that we have been basically alone in calling for 50 percent, but I would like to note that before we took a firm stand on 50 percent, I was hearing a lot of other donors around the world saying, "The Arabs don't have as much money as they used to, they should only have to put in maybe 27 or 30 percent." So we have taken a clearly hardline on that 50 percent, and we are in the process of discussing it and working it through.

Senator RUDMAN. I am glad to hear that, because there was 1 year where we actually cut off, as I recall. Was that in fiscal year 1982?

Mr. McPHERSON. Yes.

Senator RUDMAN. It seems to me that maybe they got the message.

I just want to say, Mr. Chairman, to Administrator McPherson that I think he does a splendid job. He has everyone's respect up here. He has disagreement occasionally, but I think you really try to carry out the intent and the spirit of the law. It is always a pleasure to have you up here.

Mr. McPHERSON. Thank you.

BALANCE-OF-PAYMENTS SUPPORT TO EGYPT

Senator KASTEN. Thank you, Senator.

Let me quickly switch to the Mideast, if we can. It is my understanding that during the meetings that President Mubarak of Egypt held with President Reagan recently, they discussed a couple of the issues that we have brought up over the years.

It is also my understanding that President Reagan agreed with Mr. Mubarak that more of Egypt's economic assistance program should be in the form of balance-of-payments support. That is something that this subcommittee has been interested in.

As a result of this meeting—tell me if I am characterizing the President's discussion with Mr. Mubarak in the wrong way—can we expect that you will be resubmitting at least a part of your justification material for Egypt to reflect a different type of program, particularly in this area of balance-of-payments support?

Mr. McPherson. When President Mubarak was here—two meetings ago, the second time that President Mubarak was here—there were a lot of discussion about balance of payments. And, as a result of that, the President indicated to him we would try to get Congress to accept the $103 million cash transfer—the reobligated $103 million.

While there was a discussion about it, the President never went beyond the reobligated $103 million cash transfer proposal. I am not sure how you may have gotten that impression, but the focus on cash transfer, as finally agreed on by President Reagan, was that we would notify Congress of the reobligated $103 million cash transfer. It was made clear that we were doing that, fundamentally, because of our relationship with Egypt, not because there were major economic reforms.

We have thought for some time, as you know, that Egypt needed to move on a number of areas of reform, and they have begun to move some, but in no major way. As we have come up to Congress—and as I know you know—I have spent quite a lot of time arguing for the $103 million. People thought that it was inconsistent with my position in the past, and they have gone at me a little bit on it. However, I have always argued for it, not on the basis of policy reforms, but on the basis of the political relationship.

As to the future, and the fiscal year 1985 proposals, what we have told Egypt—and continue to tell them—is that the President believes that a movement toward more rapid disbursement—in an orderly fast disbursing program incidentally—is possible, but that there needs to be reform in at least some sectors in which disbursement might occur.

MOROCCO

Senator Kasten. As you know, over the last year or so, the subcommittee has taken a special interest in the Moroccan program because of that country's continuing support of U.S. efforts in the Middle East, as well as north Africa. I think they were particularly helpful to us this past fall in terms of Egypt coming back into the Arab community.

I want to, first of all, congratulate you for the work that you are doing now with them in terms of getting the weather modification program off the ground. I know that Senator Andrews has had a particular interest in that as well—I probably don't need to tell you that.

Mr. McPherson. A good example of listening carefully to the committee and Members of Congress, I think.

Senator Kasten. Over and above that, however, I am anxious to make sure that Morocco received the total assistance requested during the current fiscal year, including a proposal by the State Department that an additional $5 million in economic support funds be provided for Morocco, which would bring them up to the level that was originally requested.

It is my understanding that there are some at AID that oppose that, and, as a result, more in Public Law 480 was provided, rather than $5 million in the economic support funds. I am disappointed in that, if that in fact is what has taken place, because I think that they need the ESF type of assistance.

No. 1, would you comment on Morocco in general; No. 2, on economic support funds versus Public Law 480 funds; and what is the situation, and is it possible that we could get that funding level back up to the request?

Mr. McPHERSON. We certainly concur with your assessment of the importance of Morocco on a number of foreign policy points of view. We also think that Morocco has some very deep financial difficulties, and those need to be taken into consideration as we address this problem.

When the Prime Minister was here last week, and there were discussions about what we should be doing with Morocco, that is where this question of $5 million ESF or $5 million Public Law 480 came up. I think we addressed it in a way that is satisfactory to the Moroccans, because what we did was to provide $20 million Public Law 480—$20 million, not $5 million—to be drawn after they had utilized their blended credit, which was previously extended to them. And, that brought a total Public Law 480 figure for fiscal year 1984 of some $40 million. Their program, thus, came up quite substantially.

Tony has the figures for Morocco.

Senator KASTEN. It is my understanding that the question was between $15 million in Public Law 480 and $5 million in ESF, or $20 million in Public Law 480. We would have preferred the initial split, and AID has ended up prevailing in terms of $20 million in Public Law 480, rather than the $15 million-$5 million split. Maybe my information is wrong.

Mr. McPHERSON. No.

Senator KASTEN. Everybody is for an overall $20 million, but the question is whether $5 million of that $20 million is in ESF, and this is something that this committee was particularly interested in.

Mr. McPHERSON. You are characterizing it in that fashion, and I am sorry that I seem to have misconstrued it. I don't fully recall the details. That is correct—that is what was given—$20 million in Public Law 480 title I.

We just didn't know where to get the ESF, frankly. We spent a lot of time struggling with the question, and it is indicative of the reprogramming problem we have. Bill Schneider and I spent a lot of time worrying about it, and we just couldn't find where to get it. They have also asked us—they have a bad drought there, too, and they are worrying about that drought situation. I just didn't know where to find the ESF, and that would be the bottom line.

LEBANON

Senator KASTEN. This is going to relate to my second and last question for you and Tony, just because we are out of time. What is the current unused portion of the Lebanon funds which we have provided inasmuch as AID is really no longer active in Lebanon, or you certainly have decreased your activity there.

Mr. McPherson. I think we have $129 million.

Senator Kasten. What is the unused portion?

Mr. McPherson. $129 million.

Senator Kasten. Will you be deobligating those funds, or what do you have in mind?

Mr. McPherson. They are no-year funds, am I correct in that, Tony?

Ms. Ford. That is right.

Mr. McPherson. They are no-year funds. There is under consideration the possibility of something in another part of the world that I think your committee is aware of, but that we have not talked about publicly. At least to my knowledge we have not talked about it publicly. Beyond that, we have made no further determinations or recommendations to the President or the Secretary.

Senator Kasten. The committee might be interested in at least a discussion of finding $5 million in ESF for Morocco out of that area.

Your AID people were moved from Lebanon to Cyprus?

Mr. McPherson. Yes.

Senator Kasten. Are the people now in Cyprus or back in the United States?

Mr. McPherson. They are back home. We have one person there, is that right, Tony?

Ms. Ford. We have one American contractor in Lebanon now supervising telephone repair. All of the American AID employees and contractors, except that one, are gone. We are projecting that, when and if we can get our program moving again, we would be able to continue work there with hospitals and other project areas. As to forecast when our Lebanon program will get moving actively again, as you are certainly aware, Senator, we can't say specifically when this will happen. We are prepared to go when and if the opportunity presents itself.

Senator Kasten. You have one person in Lebanon, and the remainder are in Cyprus? None of the so-called Lebanon Team have come back to the United States at this time, is that correct?

Ms. Ford. The Lebanon Team is no longer in Lebanon. We had two of them in Cyprus, but they are now coming back to Washington. We have local Lebanese AID staff in Beirut, but no Americans are currently permanently assigned to Lebanon, except for one U.S. contractor.

Senator Kasten. I want to thank all of you for the testimony this morning.

What we will do is switch to the second portion of our AID presentation. We will give you a 2-minute break, and then we will get started. It looks like we are going to run until 12:30 or 12:40 now.

Thank you all very much, and there will be questions coming from the committee.

[A brief recess was taken.]

Senator Kasten. The committee will come to order.

I think that it might be helpful if you might make a brief statement to start this second portion of the hearing, and possibly call on each of your associates to make a brief summary. Then we will get right into questions.

Mr. McPHERSON. Excellent.

Let me make my statement, and then my colleagues will make their statements, and they will be very brief because we have run later than you expected.

I have with me today Julia Chang Bloch, who is the Assistant Administrator for the Bureau that is responsible for food for peace, for the ASHA program, and for the private voluntary organizations; Tom Rollis, who is the Assistant Administrator for Management, that is one of the larger bureaus within the agency, and he is here particularly because of the operating expense responsibilities.

On my left is Nyle Brady, Senior Assistant Administrator for Science and Technology. As you know, this has been a key effort on our part. There are a number of initiatives here that we are very proud of already, and in the long-term will be very proud of, indeed.

On his left is Edgar Harrell, who is the Acting Assistant Administrator for the Private Enterprise Bureau, who is now putting together and structuring our revolving fund.

All of these people have been at their responsibilities now for roughly the same length of time as I have, and they are deeply into the program. These are folks that I am confident are doing an excellent job, and they are happy to be here and talk with you.

Julia?

BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

STATEMENT OF JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

BUDGET REQUEST

Ms. BLOCH. Thank you. I am pleased to be here.

As you know, for the programs under the Food for Peace and Voluntary Assistance Bureau, we are requesting $40.4 million this year from the development assistance functional accounts and $10 million for the American Schools and Hospitals Abroad Program (ASHA).

The bulk of our request from the functional accounts will fund the programs for Private Voluntary Organizations (PVO's) administered by the Office for Private and Voluntary Cooperation.

PVO FIELD PROGRAMS

Taking into consideration the concerns of the subcommittee—particularly, Mr. Chairman, your concerns—we are emphasizing support for field programs of PVO's with established development capabilities. We also want to insure provision of that support in a way that will maximize the funds generated from private sources.

Our objective is really two-fold: to ensure the developmental impact of PVO activities and, at the same time, to take care that our systems will not compromise the independence and the privateness of PVO's which, of course, is the hallmark of those organizations.

Finally, our request for the American Schools and Hospitals Abroad Program includes a very modest increase from our request level of last year, again taking into consideration the concerns of this subcommittee.

Thank you.

[The prepared statement of Ms. Bloch follows:]

PREPARED STATEMENT OF JULIA CHANG BLOCH

ASSISTANT ADMINISTRATOR

BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

AGENCY FOR INTERNATIONAL DEVELOPMENT

I am Julia Chang Bloch, Assistant Administrator of the Bureau for Food for Peace and Voluntary Assistance. The FVA Bureau includes the Offices of Food for Peace, Private and Voluntary Cooperation, and American Schools and Hospitals Abroad.

For FY 1985, we are requesting $40.4 million for programs funded from the Development Assistance Functional Accounts and $10.0 million for American Schools and Hospitals Abroad.

The major part of our functional account request - $33.2 million - will provide support for centrally-funded PVO grants administered by the Office of Private and Voluntary Cooperation. Building on earlier grants that strengthened the organizational capacity of some 45 U.S. PVOs to carry out economic development, our grant program emphasizes the use of existing PVO capabilities to expand development activities in the field. It includes approximately $14 million in Matching Grants; $5.1 million for grants through PVO consortia; $5.0 million for grants to cooperative development organizations; $7.5 million for ocean freight reimbursement and limited support for institution building activities. Virtually all of these grant relationships will be on a cost-sharing basis. These grants enable U.S. PVOs and cooperatives to carry out a wide variety of development activities in agriculture, rural development, nutrition and health. They finance programs consistent with host country development priorities and are targeted geographically to countries with A.I.D. bilateral programs. Since nearly all of them require an investment of the PVO's private resources, they are an important means of strengthening collaboration between the American public and private sector, as well as increasing the magnitude of the overall U.S. contribution to economic and social development.

Programs funded by the FVA Bureau comprise only one element in the Agency's extensive and varied support to PVOs. For FY 1985, AID's proposed PVO support will total approximately $286 million, exclusive of PL 480 Title II commodities and related ocean freight. Over 14% of the Agency's total FY 1985 request for the Development Assistance functional accounts, Disaster Assistance and Sahel Development will be channeled through PVOs.

The policy framework under which we work with the private voluntary community emphasizes four major objectives: increasing the development impact of AID-supported PVO programs; discouraging undue dependence on U.S. Government financing; simplifying management and administrative procedures relating to AID-funded PVO programs; and insuring that AID funds are used in ways that respond to AID's legislative mandate, but at the same time are supportive of the PVOs' special characteristics and capabilities.

AID views PVOs as its partners, both as development intermediaries and as independent development agencies in their own right. Their programs are responsive to major Agency priorities in addressing development problems and meeting basic human needs in the LDC's. For example, the work of PVOs in small-scale private enterprise fulfills a recognized role in the development of the private sector. PVOs also have significant impact in institution-building through their ability to work with indigenous groups at the local level. And PVOs are effective agents in the adaptation and transfer of appropriate technologies.

Over the coming year, we will continue to explore ways in which the AID/PVO partnership can be strengthened. This will include encouraging PVO participation in AID's country programming process to help target programs on country-specific development needs and priorities; increasing the emphasis on cost-sharing in PVO grant relationships to protect their independent and voluntary nature; establishing a centralized information coordination and dissemination capability to ensure AID awareness of PVO strengths and characteristics and PVO knowledge of AID sectoral and country priorities; and continuing consultation with the Advisory Committee on Voluntary Foreign Aid on issues of mutual concern. We will also continue to emphasize the active use of evaluation as an instrument in our program planning process, both through assessment of individual PVO activities and through comparative analysis of performance in given sectors such as small enterprise and health.

Our FY 1985 request includes $2.4 million in support of the ongoing Development Education program authorized by the Biden-Pell Amendment. This program responds to the Congressional mandate to facilitate widespread public discussion, analysis and review of issues related to world hunger and poverty and to increase public awareness of these issues. Initiated in 1981, it has become an increasingly significant source of support for PVO efforts to educate the U.S. public on economic, political, technical and social factors relating to international development.

The major activity supported through Biden-Pell funding is a competitive grants program under which 17 PVOs have received support during the past two years. Through this program, AID provides financial assistance on a cost-shared basis to PVOs to encourage a wide variety of development education activities. Projects financed to date include support for local, regional and national education, training and outreach activities directed to specific target groups including women, educators, community and business leaders, cooperative members, minorities and youth. In addition to these competitive grants, we have supported other development education programs to increase public awareness of hunger-related issues through the media and educational associations: for example, a curriculum design and dissemination project to bring discussion of development issues into the classroom; and the End Hunger Televent, a joint venture of the media and entertainment community with over 50 international and domestic PVOs.

Our FY 1985 request also includes a few continuing Development Assistance-financed activities supportive of the Food for Peace program. Each of them contributes to AID's overall effort to utilize PL 480 resources in ways that increase their developmental impact, to improve the targeting of feeding programs to those in need, and to integrate PL 480 more closely with other assistance resources. The largest of these activities is the PL 480 Title II Outreach Project, which helps assure that Title II food aid reaches the truly needy by financing short-term transportation, storage, distribution and administration costs of PVO-administered Title II programs. Since 1978, 24 Outreach grants totalling $16.4 million have been funded in 18 countries, including twelve in Africa, five in Latin America and the Caribbean and one in Asia. We are requesting $3.9 million for Title II Outreach in FY 1985.

Our Development Assistance request also includes funding for program support activities such as regional Food for Peace workshops, technical advisory services to resolve problems in the field, research to improve PL 480 programming and allocation, and an active schedule of PL 480 and PVO evaluations.

The Office of American Schools and Hospitals Abroad (ASHA) assists private, non-profit schools and hospitals overseas which serve citizens of other countries. A principal characteristic of ASHA-assisted institutions is their effective adaptation of American know-how to other cultures. This is accomplished through close and continuing working relationships between citizens of the United States and those of other countries.

Institutions receiving grants in Fiscal Year 1984 and those with active prior year grants are training over 100,000 students and providing medical services to over 2 million persons annually. These institutions meet all or most of their operating expenses from sources other than the U.S. Government. ASHA grants primarily help to finance the facilities and equipment needed to strengthen educational and medical programs that contribute to economic and social development.

In 1979, with encouragement from this Committee, the Agency adopted procedures to ensure the award of ASHA grants in as fair and objective a manner as possible. Reviewers from outside the Agency assist us in assessing proposals against specific legislative-based criteria and for need, impact and cost-effectiveness. This commitment to review proposals as objectively as possible has resulted in our receiving an increasing number of applications. With this heightened competition, the number of LDC institutions assisted has risen in Africa, Asia and Latin America. For the period FY 1979 through 1984, ASHA will have provided first-time assistance to thirty-five institutions. These include institutions in Botswana, Guatemala, Haiti, Honduras, India, Israel, Jamaica, Jordan, Korea, Liberia, Malawi, Mexico, Philippines, Rwanda, Sudan, Tanzania, Thailand, the West Bank and Zambia.

Thus, the ASHA program has significantly broadened its geographic impact and provided greater opportunity for those seeking assistance. This trend will continue in FY 1984 through assistance to 40 American-sponsored institutions in 23 countries. A number of these institutions have regional impact, most are in low-income and low middle-income countries and two conduct worldwide programs. These grants will assist 65 percent of this year's applicants, as opposed to 60 percent last year and 42 percent the year before. Twenty of the 40 institutions being assisted this year did not receive assistance last year. Eight will receive assistance for the first time.

AID is requesting $10 million in FY 1985 for the American Schools and Hospitals Abroad program. Priority will be given to those institutions that have a good record of self-help and offer the greatest potential for developing human resources.

To summarize, our proposed FY 1985 program continues support for PVO field programs consistent with AID's overall development priorities, recognizing the complementarity of our development interests as well as the need to protect PVO independence through cost-sharing. We will increase funding for our development education program to further heighten public awareness of the issues of world hunger. And we will continue AID support for US-sponsored institutions served by the ASHA program within available resources.

MANAGEMENT

STATEMENT OF THOMAS ROLLIS, ASSISTANT ADMINISTRATOR FOR MANAGEMENT

ACHIEVEMENTS

Mr. ROLLIS. The most important achievements in management over the last year were outside of the Bureau itself. I am sure that Peter has talked to you about the importance of the deob/reob authority. That is probably the single most important thing in the management of the Agency that has occurred, and we are using it to divert funds from projects that are not working to better uses.

Another thing that we have done, in a combination of program funds and operating expenses, is an increase in the financial oversight of our projects. Our Inspector General will be testifying before you later on, but we have been able, on the direct hire side, to maintain the Inspector General's direct hire ceilings, and according to an OMB ranking now of the 19 largest agencies, we stand fifth in the percentage of direct hire resources that we devote to the IG function.

We have also been able to supply a sufficient amount of travel so that the IG has been able, in fact, to turn back travel funds each year. The most important thing, though, is that in 1984, we were able to allow General Beckington $500,000 to contract with CPA firms to do audits.

Another increase in project implementation is that we have imbedded financial technical assistance within the projects themselves on an equal par with something like agricultural technical assistance. Especially in Africa, we are now devoting sizable amounts of money to hire CPA firms to go into recipient organizations and establish an appropriate accounting system prior to or along with the flow of program funds.

The other thing, I think, within the operating expenses that represents a step forward is the increase in office automation, including both data processing and word processing equipment. We intend in 1985 to purchase a main frame, but major amounts of money are going to increase our ability to service what we have.

Thank you.

BUREAU FOR SCIENCE AND TECHNOLOGY

STATEMENT OF NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY

ADVANCES IN MALARIA TECHNOLOGY

Mr. BRADY. In science and technology, we are concerned with all sorts of things that we think provide the technology that the rest of the agency uses, and that the missions use.

You are aware of the findings that we have had in malaria technology. It looks like within 3 to 5 years, we should have available a malaria vaccine. You have also been very well briefed on the work, for example, of the International Agricultural Research Centers.

Senator KASTEN. You are going to have to speak up a bit for the people in the back of the room.

Mr. BRADY. You also know of the activities of the International Agricultural Research Centers. We also are concerned, of course, with the worldwide activities relating to family planning.

The one thing that we are trying to do that may be new, we are trying to increase the capability of national programs to do their own research. We are trying to get a higher proportion of what we do in collaboration with missions and with countries, so that in time they can do the research themselves. So that we don't have to do it, and then give them the results of it.

Thank you.

[The prepared statement of Mr. Brady follows:]

PREPARED STATEMENT OF DR. NYLE C. BRADY

Senior Assistant Administrator
Bureau for Science and Technology
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

A.I.D.'s Bureau for Science and Technology (S&T) concentrates on Third World problems that transcend national boundaries and are regional or global in scope. Research, technology development and transfer, and institution building create the foundation for economic growth and social progress in less developed countries (LDCs). In particular, these efforts improve the lives of poor rural and urban populations.

The S&T programs develop and test appropriate technologies through basic and applied research. They emphasize collaboration among the U.S., international and developing-country research communities. The Bureau funds the U.S. core budget contribution to the International Agricultural Research Centers which assist the work of host country reseach programs by developing improved agricultural technologies for LDCs. The Malaria Immunity project is making progress towards developing a vaccine against human malaria for use in LDCs. We have been instrumental in the development and dissemination of oral rehydration therapy techniques which can save hundreds of thousands of LDC infants from death caused by severe dehydration.

Through U.S. and international institutions, S&T provides scientific and technical assistance to host country development projects funded by Regional Bureaus and field Missions. S&T services provide for technical and scientific training of less-developed country participants; development of institutions to apply new technologies; accumulation and dissemination of research findings; and evaluation of past and current efforts in order to improve planning, design and implementation methods. These efforts emphasize collaborative, substantive programming to best utilize available resources.

S&T's appropriations are heavily concentrated in agriculture and population planning. FY 1985 allocations for these offices are proposed at $82.4 million and $100.1 million, respectively, or 32.6 and 39.6 percent of the total $253 million S&T development assistance request.

However, these activities are closely associated with other S&T efforts. Agricultural projects often are associated with efforts to improve nutrition, further rural development, assure sufficient energy supplies, and develop forest and other natural resources. Through such programs, approximately $23.7 million will be allocated in FY 1985 to projects that directly reinforce agricultural efforts. Likewise population planning contributes to all S&T efforts as do programs in institutional development, education, training and information dissemination.

It is S&T's intention to promote cost-effective use of A.I.D.'s limited financial and managerial resources for research. Networks are being established to address development problems which are common to several countries in a region. The Water Management Synthesis program links U.S. international and developing country resources to address common problems throughout Asia. The Improving the Efficiency of Education project is setting up a similar network to deal with education problems in Africa. Research efforts conducted in a networking mode will reach better conclusions more quickly while avoiding costly duplication of effort. Through such collaboration, resources can be used more effectively and results disseminated more efficiently.

As we launch these attacks on the major constraints to development in the Third World, S&T is mindful that research carried out in and for developing countries frequently has positive applications in the United States. We hope to continue this worthwhile and broadly beneficial effort.

BUREAU FOR PRIVATE ENTERPRISE

STATEMENT OF EDGAR C. HARRELL, ACTING ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE

PREPARED STATEMENT

Mr. HARRELL. Mr. Chairman, we appreciate the opportunity to be here. I want to thank you personally and members of this committee for the support that you have given to the Bureau. I think that we are demonstrating, and we will continue to demonstrate that that support was well-founded.

I will be glad to answer any questions.

[The statement follows:]

PREPARED STATEMENT OF EDGAR C. HARRELL

ACTING ASSISTANT ADMINISTRATOR

BUREAU FOR PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I APPRECIATE THE OPPORTUNITY TO PRESENT THIS STATEMENT ON BEHALF OF THE BUREAU FOR PRIVATE ENTERPRISE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

THE BUREAU WAS ESTABLISHED IN JULY 1981 TO SPEARHEAD AN AGENCY-WIDE INITIATIVE TO ENERGIZE THIRD WORLD PRIVATE ENTERPRISE AS A MAJOR FORCE FOR BROADLY BASED, EQUITABLE AND SELF-SUSTAINING GROWTH. IN THE PAST TWO AND A HALF YEARS WE BELIEVE WE HAVE DEVELOPED AN INNOVATIVE, EXPERIMENTAL AND COST-EFFECTIVE PROGRAM TO CARRY OUT THIS RESPONSIBILITY. THE PROGRAM IS BEGINNING TO HAVE MEASURABLE IMPACT IN SELECTED DEVELOPING COUNTRIES.

THIS STATEMENT WILL DESCRIBE A.I.D.'S PRIVATE SECTOR INITIATIVE IN TERMS OF ITS RATIONALE, STRATEGY, IMPLEMENTATION, ACCOMPLISHMENTS THUS FAR, AND FUTURE PLANS AS PROJECTED IN THE BUREAU'S FISCAL YEAR 1985 APPROPRIATION REQUEST.

THE BUREAU FOR PRIVATE ENTERPRISE CONSISTS OF FOUR SEPARATE ACTIVITIES. TWO OF THEM, THE OFFICE OF HOUSING AND URBAN PROGRAMS, AND THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS/MINORITY RESOURCE CENTER, WHICH HAVE BEEN OPERATING UNITS WITHIN A.I.D. FOR SOME TIME, WERE TRANSFERRED TO THE BUREAU WHEN IT WAS ESTABLISHED. I WILL DEVOTE MOST OF THE STATEMENT TO THE NEWER PRIVATE SECTOR ACTIVITIES. THESE ARE DEVELOPED AND MANAGED BY TWO ADDITIONAL OFFICES -- THE OFFICE OF INVESTMENT AND THE OFFICE OF POLICY AND PROGRAM REVIEW.

RATIONALE FOR THE PRIVATE SECTOR INITIATIVE

CERTAIN REALITIES OF THIRD WORLD EXPERIENCE PROVIDE THE RATIONALE FOR A PRIVATE SECTOR INITIATIVE IN FOREIGN AID.

FIRST, EVIDENCE IS PERSUASIVE THAT THOSE DEVELOPING NATIONS WHICH HAVE RELIED ON MARKET FORCES FOR GROWTH HAVE, BY AND LARGE, REGISTERED IMPRESSIVE ECONOMIC GAINS. CONVERSELY, MANY OF THOSE CHOOSING TO MANAGE AND DIRECT THEIR ECONOMIES PRIMARILY THROUGH THE PUBLIC SECTOR HAVE FARED LESS WELL.

SECOND, RECENT ECONOMIC PROBLEMS IN THE DEVELOPING WORLD -- MOUNTING DEBT SERVICE BURDENS AND REDUCED DEMAND AND FALLING PRICES FOR TRADITIONAL EXPORTS -- HAVE LED THIRD WORLD LEADERS INCREASINGLY TO REEXAMINE THEIR DEVELOPMENT PHILOSOPHIES AND TAKE CORRECTIVE ACTION. THIS OFTEN HAS MEANT A SHIFTING AWAY FROM GOVERNMENT CONTROL OF THE ECONOMY TOWARD MORE RELIANCE ON THE PRIVATE SECTOR.

THIRD, THE DECLINE, IN REAL TERMS, OF OFFICIAL AID LEVELS FROM THE UNITED STATES AND OTHER DONOR COUNTRIES HAS CONFRONTED BOTH DEVELOPED AND DEVELOPING NATIONS WITH THE CHALLENGE OF ENLISTING OTHER RESOURCES AND SKILLS, INCLUDING THOSE OF THE PRIVATE SECTOR, TO KEEP THE DEVELOPMENT PROCESS ON TRACK.

BUREAU STRATEGY

IN DEVELOPING THE A.I.D. PRIVATE SECTOR INITIATIVE, WE HAVE DRAWN ON LESSONS LEARNED FROM THIRD WORLD "SUCCESS STORIES."

ELEMENTS COMMON TO EACH INCLUDED THESE: THE RIGHT POLICY CLIMATE TO MOBILIZE PRIVATE CAPITAL AND DIRECT ALLOCATION OF THAT CAPITAL EFFICIENTLY AND EQUITABLY. A FINANCIAL STRUCTURE TO HELP MATCH SOURCES OF CAPITAL WITH PRODUCTIVE USES OF CAPITAL, AND THE DEVELOPMENT OF MANAGERIAL AND TECHNICAL SKILLS TO ASSURE THAT THE INVESTED CAPITAL BASE APPRECIATES IN VALUE. EXPERIENCE SHOWED THAT THESE ELEMENTS NOT ONLY SPURRED ECONOMIC PROGRESS; THEY ALSO BUILT A RESILIENCY INTO THE ECONOMY SO THE NATIONS AFFECTED COULD BETTER WEATHER THE IMPACT OF WORLD RECESSION AND OTHER FACTORS BEYOND THEIR CONTROL.

THE BUREAU FOR PRIVATE ENTERPRISE HAS ADOPTED A FOUR-PART STRATEGY. THIS FOCUSES OUR LIMITED BUDGET AND STAFF RESOURCES ON THE FOLLOWING:

1. THE REMOVAL OF CONSTRAINTS TO THE DEVELOPMENT OF PRIVATE ENTERPRISE IN HOST COUNTRIES -- ADVERSE POLICIES, LAWS AND REGULATIONS; DEFICIENCIES IN LOCAL CAPITAL MARKETS; SHORTAGE OF TECHNICAL, VOCATIONAL AND ENTREPRENEURIAL SKILLS; LACK OF TECHNOLOGY;

2. THE PROVISION OF CREDIT TO CAPITALIZE OR EXPAND INTERMEDIATE INSTITUTIONS THAT PROVIDE LOANS, EQUITY, AND OTHER SERVICES TO SMALL AND MEDIUM-SIZED ENTERPRISES;

3. SUPPORT FOR THE DEVELOPMENT OF AGRIBUSINESS, AN IMPORTANT SOURCE OF MARKETS, EMPLOYMENT AND INCOME IN AGRICULTURE-BASED THIRD WORLD COUNTRIES; HEALTH AND COMMERCIALIZATION OF TECHNOLOGY ARE TWO NEW AREAS ADDED IN FY 1984; AND

4. SUPPORT AND ENCOURAGEMENT TO A.I.D. MISSIONS IN DESIGNING AND CARRYING OUT THEIR OWN PRIVATE SECTOR PROJECTS IN THE FIELD.

IN ADDRESSING THE REALITY OF LIMITED BUDGET RESOURCES, WE HAVE BEEN SUCCESSFUL IN ATTRACTING BOTH U.S. AND HOST COUNTRY PRIVATE RESOURCES INTO DEVELOPMENT, THUS MULTIPLYING THE IMPACT OF A.I.D. DOLLARS. OUR LEVERAGING RATIO FOR PROJECTS SO FAR HAS AVERAGED BETTER THAN THREE TO ONE. IN OUR NEWER PROJECTS, WE EXPECT TO ACHIEVE AN EVEN HIGHER AVERAGE RATIO.

BUREAU STRATEGY ALSO EMBRACES THE CONCEPT THAT THOSE THIRD WORLD BUSINESSES AND INSTITUTIONS BEST ABLE TO CONTRIBUTE TO DEVELOPMENT OBJECTIVES ARE THOSE THAT CAN STAND COMPETITIVELY IN THE MARKETPLACE, WITHOUT SUBSIDY. THEREFORE, OUR LOANS TO FOR-PROFIT ENTERPRISES AND THE INTERMEDIATE INSTITUTIONS THAT SERVE THEM ARE ON NEAR-MARKET TERMS.

IMPLEMENTATION OF STRATEGY

IN IMPLEMENTING OUR STRATEGY, WE HAVE CONCENTRATED ON ACTIVITIES THAT FULLY SUPPORT THE CONGRESSIONAL MANDATE TO IMPROVE THE LIVES OF THE POOR MAJORITY IN A.I.D.-ASSISTED

COUNTRIES. OUR EMPHASIS IS ON JOB CREATION AND INCOME EXPANSION, ESPECIALLY IN LABOR-INTENSIVE SMALLER ENTERPRISES IN RURAL AREAS; HUMAN RESOURCES DEVELOPMENT THROUGH SKILLS TRAINING; AND SELF-HELP HOST COUNTRY POLICIES THAT BEST PROMOTE SELF- PROPELLING AND EQUITABLE GROWTH THAT REACHES THE LARGEST NUMBER OF PEOPLE.

THE IMPLEMENTATION HAS BEEN ON TWO TRACKS.

THE FIRST TRACK HAS BEEN DEVELOPMENT OF THE BUREAU'S OWN PROJECT PORTFOLIO. THE LENDING PORTFOLIO HAS TOTALED $33.4 MILLION OVER FY 82, 83 AND 84. FOCUSED ORIGINALLY ON WORKING THROUGH PRIVATE INTERMEDIATE FINANCIAL INSTITUTIONS TO PROVIDE START-UP AND EXPANSION CREDIT TO SMALL AND MEDIUM-SIZED ENTERPRISES, THE PORTFOLIO NOW INCLUDES DIRECT LOANS TO BUSINESSES AND CO-FINANCING ARRANGEMENTS WITH PRIVATE BANKS TO ACCOMPLISH THE SAME PURPOSE. THE BUREAU'S GRANT PORTFOLIO HAS TOTALED $29.5 MILLION OVER THE THREE YEARS. THIS PORTFOLIO FINANCES SUPPORT FOR A.I.D. MISSIONS, ADVISORY SERVICES TO HOST GOVERNMENTS ON POLICY AND CAPITAL MARKET DEVELOPMENT, AND NEW PROJECTS SUCH AS COLLABORATION WITH THE PRIVATE SECTOR IN HEALTH SERVICES AND COMMERCIALIZATION OF TECHNOLOGY. THE LARGEST PORTION IS FOR THE I.E.S.C. (INTERNATIONAL EXECUTIVE SERVICE CORPS), AN ORGANIZATION INCREASINGLY BEING USED BY A.I.D. MISSIONS IN THE IMPLEMENTATION OF THEIR PROGRAMS. THE A.I.D. CORE GRANT OF $6 MILLION MAY BE SUPPLEMENTED BY UP TO $750,000 - $1,000,000 IN MISSION FUNDS IN FY 84.

THE SECOND TRACK IN STRATEGY IMPLEMENTATION HAS BEEN TO "INSTITUTIONALIZE" THE PRIVATE SECTOR INITIATIVE WITHIN A.I.D. THIS HAS INCLUDED FORMATION OF A "PRIVATE SECTOR LIAISON COUNCIL" OF SENIOR MANAGEMENT REPRESENTATIVES OF THE AGENCY'S REGIONAL AND CENTRAL BUREAUS. IN THE PAST YEAR, THIS COMMITTEE HAS PROVED AN EFFECTIVE DEVICE FOR DISCUSSING PRIVATE SECTOR POLICY ISSUES AND PROJECTS AND KEEPING ALL A.I.D. UNITS INFORMED OF BUREAU ACTIVITIES.

PROGRESS HAS BEEN MADE IN FORGING EFFECTIVE RELATIONSHIPS WITH BOTH REGIONAL BUREAUS AND FIELD MISSIONS. AT FIRST, THE REST OF THE AGENCY TENDED TO THINK OF PRIVATE ENTERPRISE AS A SECTOR IN THE TRADITIONAL USE OF THE WORD -- THAT IS, AS A PROGRAM OBJECTIVE RATHER THAN AS A MEANS TO ACHIEVE DEVELOPMENT PAYOFF ACROSS A WHOLE RANGE OF SECTORS. IN RECENT MONTHS, UNDERSTANDING OF THE INITIATIVE HAS EVOLVED.

INCREASINGLY, MISSIONS ARE LOOKING AT OPPORTUNITIES TO WORK COLLABORATIVELY WITH THE PRIVATE SECTOR, INCLUDING PVOs AND COOPERATIVES, AS A COST-EFFECTIVE MEANS TO PROVIDING SERVICES TO FARMERS AND OTHERS IN THE AREAS OF AGRICULTURE, HEALTH, POPULATION, AND EDUCATION.

ONE OF THE MORE HEARTENING DEVELOPMENTS HAS BEEN A SHARP UPSWING IN MISSION DEMAND FOR BUREAU ASSISTANCE, ESPECIALLY IN EFFORTS TO IMPROVE THE HOST COUNTRY POLICY ENVIRONMENT.

BUREAU SUPPORT TO MISSIONS

DURING FY 1982, WE RECEIVED ONLY FIVE MISSION REQUESTS FOR ASSISTANCE. IN FY 1983, WE CARRIED OUT 28 SPECIFIC ASSIGNMENTS FOR 20 MISSIONS. WE EXPECT TO RESPOND TO SOME 50 FIELD REQUESTS DURING THE CURRENT YEAR.

A MAJOR SOURCE OF REQUESTS HAS BEEN CONCERNING POLICY DIALOGUE WITH GOVERNMENTS ON "PRIVATIZING" STATE-OWNED ENTERPRISES THAT ARE COSTLY AND HAVE BECOME A DRAG ON THE ECONOMY, AND ON REFORMING BUSINESS- ORIENTED POLICIES AND LAWS.

SOME EXAMPLES:

- WE HAVE ENGAGED TWO INTERNATIONALLY RECOGNIZED ACCOUNTING FIRMS TO CONDUCT RESPECTIVE AUDITS OF STATE ENTERPRISES IN TWO LATIN AMERICAN COUNTRIES AS A POSSIBLE FIRST STEP TO PRIVATIZATION. WE ARE PARTIALLY FUNDING STUDIES THAT CAN HELP ATTRACT PRIVATE INVESTORS TO BUY INTO SIMILAR STATE ENTERPRISES IN A SOUTHERN AFRICAN NATION.

- A BUREAU CONSULTANT RECENTLY VISITED INDIA AS AN INITIAL STEP IN A LONGER-TERM PROJECT TO STRENGTHEN CAPITAL MARKET DEVELOPMENT IN THAT COUNTRY.

- RECOMMENDATIONS ON HOW TO IMPROVE KENYA'S INVESTMENT LAWS WERE FORWARDED TO THE KENYA THE GOVERNMENT BY EXPERTS FUNDED BY OUR BUREAU.

- WE ARE ABOUT TO FIELD A TEAM OF SPECIALISTS TO INDONESIA TO IMPLEMENT A BUREAU GRANT PROJECT TO SUPPORT CAPITAL MARKET DEVELOPMENT.

PRIVATE SECTOR REVOLVING FUND

ENACTMENT OF THE PRIVATE SECTOR REVOLVING FUND IN NOVEMBER 1983 WAS A MAJOR STEP IN PUTTING A.I.D.'S PRIVATE SECTOR INITIATIVE ON A CONTINUING BASIS. WE GREATLY APPRECIATE THE ROLE PLAYED BY THIS COMMITTEE IN MAKING THIS FUND A REALITY. WE ARE WORKING OUT IMPLEMENTATION DETAILS TO ASSURE THAT THE FUND WILL PROVIDE A FLEXIBLE, SELF-REPLENISHING AND BUSINESSLIKE MECHANISM FOR CHANNELING THE BUREAU'S LOAN INVESTMENTS INTO PROJECTS WITH HIGH DEVELOPMENT IMPACT. AS THIS SUBCOMMITTEE IS AWARE, OUTSIDE ASSESSMENT OF THESE PROJECTS IS PROVIDED BY AN INDEPENDENT LOAN REVIEW BOARD, COMPOSED OF OUTSTANDING U.S. INVESTMENT AND BANKING EXECUTIVES.

THE FUND, BY PROVIDING CONTINUITY TO THE PRIVATE ENTERPRISE INITIATIVE, WILL ENCOURAGE U.S. PRIVATE SECTOR PARTICIPATION IN BUREAU PROJECTS, THUS LEADING TO ADDITIONAL LEVERAGING OF SCARCE TAX DOLLARS.

WE WILL BE SUBMITTING AN ANNUAL REPORT OF THE REVOLVING FUND ACTIVITIES TO YOU AT THE END OF THIS YEAR AND WE WILL NOTIFY YOU OF PROPOSED REVOLVING FUND PROJECTS IN ADVANCE OF OBLIGATION ACCORDING TO USUAL PROCEDURES.

DURING FY 1984, THE FUND WILL FOCUS ON FOUR AREAS: (1) CAPITALIZING NEW INSTITUTIONS, PARTICULARLY THOSE THAT SERVE SMALL BUSINESSES FOR NON-TRADITIONAL EXPORTS AND FOR INTRODUCING NEW TECHNOLOGY; (2) AGRIBUSINESS PROJECTS WITH SMALL FARMER OUTREACH, IN WHICH CORE PROCESSING PLANTS PROVIDE EXTENSION SERVICES, CREDIT AND ASSURED MARKETS TO SMALL FARMERS; (3) FOR-PROFIT HEALTH SERVICE PROJECTS, INCLUDING POPULATION-RELATED PROJECTS; (4) INVESTMENTS IN THIRD WORLD BUSINESSES THAT WILL DEVELOP, ADAPT AND COMMERCIALIZE APPROPRIATE TECHNOLOGIES.

EXAMPLES OF DEVELOPMENT PAYOFF

AS THIS SUBCOMMITTEE IS AWARE, THE BUREAU BECAME FULLY OPERATIONAL APPROXIMATELY TWO YEARS AGO. OF OUR 11 LOAN INVESTMENTS, MEASURABLE RESULTS ARE BEGINNING TO BE APPARENT.

OUR INITIAL FOCUS ON INTERMEDIATE INSTITUTIONS AS SOURCES FOR MEDIUM- AND LONG-TERM CREDIT NEEDED BY SMALLER ENTERPRISES TO START UP AND EXPAND LED TO ARRANGEMENTS WITH

COMMERCIAL BANKS IN THAILAND AND KENYA, A LEASING BUSINESS IN PERU, AN INSURANCE COMPANY IN JAMAICA, AND A VENTURE CAPITAL FIRM IN THE CARIBBEAN BASIN.

BENEFITS FROM THE LOANS TO THE TWO COMMERCIAL BANKS ARE JUST TWO EXAMPLES OF THE KIND OF PAYOFF WE WERE LOOKING FOR. FOR EXAMPLE, SIAM COMMERCIAL BANK HAS DISBURSED LOANS TOTALING $1,091,000 TO EIGHT AGRIBUSINESS BORROWERS FROM A FUND JOINTLY SET UP BY THE BANK AND OUR BUREAU UNDER A $2 MILLION A.I.D. LOAN THAT WAS MATCHED BY SIAM COMMERCIAL BANK. SIX OF THESE LOANS WENT TO SMALL BORROWERS (BELOW $500,000 IN NET FIXED ASSETS), THE OTHER TWO TO MEDIUM BORROWERS (UP TO $1 MILLION IN NET FIXED ASSETS). PRELIMINARY FIGURES ON THE FIRST SIX BORROWERS INDICATE THE PROJECTS ARE GENERATING OR ARE ABOUT TO GENERATE 144 FULL-TIME JOBS AND 263 PART-TIME JOBS. INDIRECT BENEFITS, I.E., TO FARMERS PROVIDING RAW MATERIAL AND TO EQUIPMENT MANUFACTURERS PROVIDING NEW MACHINERY, ARE NOT YET MEASURABLE BUT ARE CONSIDERED SIGNIFICANT IN TERMS OF INCREASED INCOME. FIVE OF THE PROJECTS ARE EARNING FOREIGN EXCHANGE. THIS IS ESPECIALLY IMPORTANT IN LIGHT OF THAILAND'S BALANCE-OF-PAYMENTS DEFICIT.

COMPANIES BORROWING FROM THE A.I.D./BANK FUND WERE A FISH FARM, A RICE MILL, A CASSAVA PELLET FACTORY, TWO SWINE BREEDING OPERATIONS, A POULTRY OPERATION, A FRUIT PROCESSING PLANT, AND A SAUSAGE MANUFACTURER. BANK OFFICIALS HAVE STATED THAT THE BUREAU'S INITIATIVE IN SETTING UP THE FUND TRIGGERED THE BANK'S MOVEMENT INTO THE AGRIBUSINESS AREA AND THE BUILDING UP OF ITS EXPERTISE IN A TYPE OF LENDING ACTIVITY IMPORTANT TO THIRD WORLD DEVELOPMENT.

A BUREAU LOAN OF $2.5 MILLION TO KENYA COMMERCIAL BANK CREATED A SIMILAR LOAN POOL, ALSO EARMARKED FOR SMALL AND MEDIUM-SIZED RURAL BUSINESSES. DISBURSEMENTS MADE FROM THAT FUND HAVE TOTALED $787,000 SO FAR FOR 11 PROJECTS, EXPECTED TO CREATE 275 JOBS, EARN OR SAVE FOREIGN EXCHANGE IN THREE INSTANCES AND GENERALLY PROVIDE INCREASED INCOME TO FARMERS.

A $2.5 MILLION LOAN TO HELP CAPITALIZE LATIN AND CARIBBEAN INVESTMENTS, INC. (LCI), MADE IN SEPTEMBER, HAS NOT YIELDED QUANTITATIVE RESULTS AS YET. HOWEVER, THE TERMS OF THE LOAN AGREEMENT COMMIT LCI, USING A $10 MILLION DEBT AND EQUITY POOL, TO CREATE MORE THAN 1,000 NEW JOBS OVER FOUR YEARS AND GENERATE AT LEAST $10 MILLION A YEAR IN FOREIGN EXCHANGE

THROUGH AGRIBUSINESS START-UPS IN THE IMPORTANT CARIBBEAN AREA. IN ADDITION, LCI HAS PLEDGED THAT THREE OF FOUR INVESTMENTS WILL INVOLVE THE TRANSFER OF AGRICULTURAL TECHNOLOGY.

THE VERY SMALL THIRD WORLD ENTREPRENEUR IS BENEFITING FROM BUREAU LOANS TOTALING $500,000 TO WOMEN'S WORLD BANKING (WWB), AN INDEPENDENT FINANCIAL INSTITUTION. OUR INVESTMENT CONTRIBUTES TO A PROCESS WHEREBY WWB GUARANTEES 75% OF EACH LOAN MADE BY LOCAL BANKS. THUS FAR, $350,000 OF THE A.I.D. LOANS HAS BEEN DISBURSED. ILLUSTRATIVELY, $100,000 HAS BEEN CHANNELED INTO 60 LOANS TO SEAMSTRESSES RUNNING SMALL CLOTHING SHOPS AND OTHER SMALL MANUFACTURERS IN THE DOMINICAN REPUBLIC FOR WORKING CAPITAL AND FIXED ASSETS, ALONG WITH BANK-PROVIDED ADVISORY SERVICES IN BUYING, MARKETING AND ORGANIZATION SKILLS. IN COLOMBIA, $50,000 OF THE A.I.D. MONEY HAS GONE TO LOANS TO 75 WOMEN-RUN BUSINESSES, INCLUDING DOLLMAKERS, CLOTHES SHOPS AND FOOD VENDORS. IN BOTH COUNTRIES, BORROWERS PAY MARKET RATES; THE TERMS RUN FROM 10 MONTHS TO THREE YEARS. THE OTHER $200,000 HAS BEEN DISBURSED IN JAMAICA AND THAILAND. THE REMAINING $150,000 A.I.D. TRANCHE IS EXPECTED TO BE USED IN KENYA AND HAITI.

FY 1985 REQUEST

THE BUREAU'S REQUEST FOR ITS PORTFOLIO OF PRIVATE ENTERPRISE ACTIVITIES IN FISCAL YEAR 1985 IS $25.4 MILLION. THE REMAINING $4.6 MILLION OF THE BUREAU'S TOTAL $30 MILLION REQUEST IS FOR THE TWO OLDER COMPONENTS, THE OFFICE OF HOUSING AND URBAN PROGRAMS ($4 MILLION) AND THE OFFICE OF SMALL AND DISADVANTAGED BUSINESS ($600,000), DESCRIBED AT THE END OF THIS STATEMENT.

THE PRIVATE SECTOR REQUESTS BREAK DOWN AS FOLLOWS:

REVOLVING FUND ($15.0 MILLION) -- BY FY 85, THE PRIVATE SECTOR REVOLVING FUND WILL BE FULLY OPERATIONAL. RESOURCES WILL CONTINUE TO EMPHASIZE FINANCIAL INSTITUTION-BUILDING IN DEVELOPING COUNTRIES. THE ATTRACTION OF PRIVATE FINANCIAL PARTICIPANTS TO THESE INVESTMENTS TO LEVERAGE RESOURCES WILL CONTINUE TO BE OF GREAT IMPORTANCE. DEPENDING ON LOCAL BUSINESS CONDITIONS, THE FUND WILL EMPHASIZE:

-- Research and development projects to commercialize technology in selected developing countries;

-- Diffusion of new and appropriate technologies through enterprises funded by international investors joint-venturing with local investors;

-- Co-financing with U.S. and Third World agricultural cooperatives and with agribusiness firms with technical/financial outreach to small farmers;

-- Private sector health and population related projects that provide services and appropriate products to meet critical health problems;

-- Use of P.L. 480 (Food for Peace) proceeds for private sector projects;

-- Venture capital projects;

-- Non-traditional export development using U.S. firms specializing in technology transfer and risk capital;

-- Financial institution-building focusing on small business lending.

We will also consider financing joint ventures between U.S. and developing country agricultural cooperatives, private health maintenance or health insurance organizations, and the production and marketing of contraceptive products by indigenous enterprises.

Policy Dialogue ($2.0 million) -- The Bureau will provide a variety of advisory services to promote enterprise-oriented host-country policies, including those for privatization strategies, mobilization of savings and risk capital, and development and protection of proprietary technology.

Technology Transfer ($7.75 million) -- The "commercialization of technology" program, initiated during this fiscal year, will be fully operational next year. This emphasizes the transfer to selected developing countries of the capacity to generate and adapt technology for use by small and

MEDIUM-SIZED BUSINESSES. SUPPORT WILL CONTINUE FOR THE INTERNATIONAL EXECUTIVE SERVICE CORPS (I.E.S.C.) AND THE JOINT AGRICULTURAL CONSULTATIVE CORPORATION (JAC CORP.), WITH EXPANSION OF GEOGRAPHIC COVERAGE FOR BOTH ORGANIZATIONS. AS MENTIONED, JOINT ARRANGEMENTS BETWEEN U.S. AND DEVELOPING COUNTRY FARM COOPERATIVES WILL BE ENCOURAGED, WHICH WILL INVOLVE SIGNIFICANT TRANSFER OF TECHNOLOGY AND MANAGEMENT EXPERTISE. IF IESC'S MARKETING STRATEGY CONTINUES TO BE SUCCESSFUL, WE EXPECT THAT BY THE END OF FY 1985 A.I.D. MISSIONS WILL BE PROVIDING ABOUT $1.5 MILLION IN SUPPORT OF I.E.S.C. PROGRAMS.

NEW PROGRAM/PROJECT DEVELOPMENT ($250,000) -- WE ARE CONSIDERING ASSISTANCE TO FORM "BUSINESS DEVELOPMENT CENTERS", LINKED WITH MANAGEMENT TRAINING INSTITUTES, TO PROVIDE MANAGERIAL AND TECHNICAL GUIDANCE TO NEW OR EXPANDING THIRD WORLD BUSINESSES.

INVESTMENT PROMOTION ($400,000) -- THE MAIN ACTIVITY WILL CONTINUE TO BE THE BUREAU'S FEASIBILITY STUDY PROGRAM. UNDER THIS WE PARTIALLY FUND ANALYSES NEEDED TO DETERMINE THE VIABILITY OF START-UP BUSINESSES, MANY OF THEM INVOLVING U.S. PARTICIPATION. THE PROGRAM IS ALSO USED AS A LOAN ORIGINATION MECHANISM TO IDENTIFY PROSPECTS FOR BUREAU FINANCING.

OFFICE OF HOUSING AND URBAN PROGRAMS

THE OFFICE OF HOUSING AND URBAN PROGRAMS ADMINISTERS THE HOUSING GUARANTY (HG) PROGRAM, WHICH WAS DEVELOPED IN THE EARLY 1960S TO RESPOND TO THE ENORMOUS AND RAPIDLY MOUNTING WORLDWIDE SHORTAGE OF ADEQUATE SHELTER. IN JULY 1982, HUP WAS ALSO DESIGNATED THE AGENCY'S LEAD TECHNICAL OFFICE IN MATTERS DEALING WITH URBAN ISSUES AND THE PROBLEMS OF URBANIZATION IN THE DEVELOPING WORLD.

AS THIS SUBCOMMITTEE IS AWARE, UNDER THE HG PROGRAM THE U.S. PRIVATE SECTOR PROVIDES LONG-TERM FINANCING FOR LOW-INCOME SHELTER AND NEIGHBORHOOD UPGRADING PROGRAMS IN DEVELOPING COUNTRIES. THE U.S. GOVERNMENT, THROUGH A.I.D., UNDERWRITES THESE TRANSACTIONS BY PROVIDING A FULL FAITH AND CREDIT GUARANTY PROTECTING THE U.S. LENDER AGAINST LOSS. TO DATE, SOME 180 PROJECTS HAVE BEEN CARRIED OUT OR ARE UNDER WAY IN 44 COUNTRIES.

WE ARE ASKING FOR $160 MILLION IN AUTHORIZATION FOR THE HG PROGRAM IN FY 85. IN ADDITION, WE ARE REQUESTING $40 MILLION IN BORROWING AUTHORITY FROM THE TREASURY TO SUPPLEMENT THE HG RESERVE FUND. THE FUND, WHICH COVERS LENDERS' CLAIMS, HAS BEEN DEPLETED IN THE WAKE OF ADVERSE WORLD ECONOMIC CONDITIONS.

THE OFFICE'S $4 MILLION BUDGET REQUEST FOR FY 85 BREAKS DOWN THIS WAY:

HOUSING THE URBAN POOR ($1.5 MILLION) -- AN INCREASINGLY URBANIZED DEVELOPING WORLD IS FAILING TO KEEP PACE WITH THE DEMAND FOR SHELTER, PARTICULARLY FOR THE POOR MAJORITY, MANY OF WHOM LIVE IN MAKESHIFT INFORMAL SETTLEMENTS OR DETERIORATING NEIGHBORHOODS. A.I.D., THROUGH ITS HOUSING GUARANTY PROGRAM, IS DEMONSTRATING HOW TO BRING ABOUT AFFORDABLE INCREMENTAL IMPROVEMENTS. THE HOUSING THE URBAN POOR PROJECT, WHICH BEGAN IN FY 1984, COMPLEMENTS SHELTER PROGRAMS AT BOTH THE POLICY AND PROGRAM LEVEL. PROJECT FUNDS WILL BE USED FOR FIVE BROAD CATEGORIES: (A) INSTITUTIONAL DEVELOPMENT; (B) TRAINING; (C) PROTOTYPE AND INNOVATIVE PROJECTS; (D) APPLIED RESEARCH, AND (E) INFORMATION DISSEMINATION.

URBAN DEVELOPMENT SUPPORT SERVICES ($1.5 MILLION) -- THIS PROJECT WAS DESIGNED IN RECOGNITION OF THE MASSIVE REQUIREMENTS FOR LAND, JOBS, SHELTER, INFRASTRUCTURE AND FACILITIES TO SERVICE URBAN POPULATIONS. THE PROJECT IS INTENDED TO STRENGTHEN THE ABILITY OF DEVELOPING COUNTRIES TO CARRY OUT URBAN POLICIES THAT PROMOTE ECONOMIC GROWTH WHILE FOSTERING SOCIAL EQUITY FOR THE URBAN POOR. IN ADDITION, THE PROJECT WILL HELP TO BUILD A.I.D.'S CAPACITY TO DEVISE TECHNIQUES OF URBAN ANALYSIS, POLICY DEVELOPMENT AND PROGRAMMING. PROGRAM ACTIVITIES INCLUDE: (A) DEVELOPMENT OF METHODOLOGIES FOR URBAN ANALYSIS; (B) MONITORING OF URBANIZATION TRENDS; (C) APPLIED URBAN-RELATED RESEARCH; (D) SUPPORT TO A.I.D. MISSIONS; (E) ASSISTANCE TO LOCAL INSTITUTIONS TO CONDUCT URBAN ASSESSMENTS; (F) SUPPORT FOR NATIONAL OR LOCAL URBAN INSTITUTIONS; (G) ACTION PLANNING AND PROGRAMMING IN SPECIFIC URBAN LOCATIONS; AND (H) PREPARATION OF SELECTIVE CAPITAL ASSISTANCE PROGRAMS (USING OTHER A.I.D., DONOR OR HG FUNDING).

PROJECT DEVELOPMENT AND SUPPORT ($1.0 MILLION) -- PD&S FUNDS WILL BE USED FOR SHELTER PLANNING AND PROJECT DEVELOPMENT

IN COUNTRIES WHICH EXPRESS INTEREST IN THE HG APPROACH. IT WILL ALSO BE USED FOR INITIAL URBAN-RELATED EFFORTS THAT HAVE THE POTENTIAL FOR WIDESPREAD APPLICABILITY AND MIGHT LEAD TO MORE COMPREHENSIVE URBAN PROGRAMS. AN EXAMPLE IS THE SHELTER SECTOR ASSESSMENT, AN IN-DEPTH ANALYSIS OF OPTIONS AVAILABLE TO A COUNTRY IN SOLVING ITS SHELTER PROBLEMS.

OFFICE OF SMALL AND DISADVANTAGED BUSINESS

THE PURPOSE OF THE OFFICE IS TO ENSURE THAT SMALL AND MINORITY-OWNED BUSINESSES PARTICIPATE IN A.I.D.-FINANCED CONTRACTS FOR GOODS AND SERVICES. THE OFFICE GIVES PARTICULAR ATTENTION, AS REQUIRED BY LAW, TO THE CONCERNS THESE BUSINESSES ENCOUNTER IN CONTRACTING FOR AND SUPPLYING A.I.D. TECHNICAL ASSISTANCE SERVICES AND COMMODITIES REQUIREMENTS.

THE MINORITY RESOURCE CENTER, WHOSE SPECIAL EMPHASIS IS REPRESENTATION OF MINORITY AND WOMEN-OWNED BUSINESSES, ASSISTS IN OBTAINING MORE INVOLVEMENT IN A.I.D.-FINANCED ACTIVITIES. THIS INCLUDES PROVIDING THESE FIRMS WITH INFORMATION, COUNSELING AND IDENTIFICATION OF CONTRACTING OPPORTUNITIES.

THE OFFICE'S $600,000 REQUEST BREAKS DOWN AS FOLLOWS:

WORLD TRADE INSTITUTE ($400,000) - WTI IS THE ADVISORY SERVICE AND TRAINING ARM OF THE PORT OF NEW YORK AND NEW JERSEY AUTHORITY. A.I.D. SUPPORTS WTI PROGRAMS TO HELP DEVELOPING COUNTRIES IN TRADE PROMOTION AND EXPANSION OF THEIR EXPORTS AND EXPORT EARNINGS. A.I.D.'S SHARE OF THE TOTAL COST OF WTI SERVICES DECLINES EACH YEAR AS INCREASED PRIVATE SECTOR PARTICIPATION REDUCES DEPENDENCE ON A.I.D. FUNDS. ABOUT 70% OF WTI'S INCOME IS NOW DERIVED FROM CLIENT PAYMENTS. THIS ALLOWS AN EXPANSION OF WTI ACTIVITIES AT THIS FUNDING LEVEL.

DEVELOPMENT-RELATED ACTIVITIES ($150,000) -- TO ENCOURAGE SMALL, DISADVANTAGED AND MINORITY U.S. BUSINESS INVOLVEMENT IN THE ECONOMIC GROWTH AND DEVELOPMENT OF A.I.D.-ASSISTED COUNTRIES, THIS PROJECT WILL FUND DEVELOPMENT TECHNOLOGY EXHIBITIONS. THESE ARE DESIGNED TO BRING TOGETHER SUCH U.S. BUSINESSES WITH THOSE IN DEVELOPING COUNTRIES TO TRANSFER TECHNOLOGY, ENCOURAGE JOINT VENTURES, AND PROVIDE TRAINING/EDUCATIONAL ASSISTANCE. EXPERIENCE GAINED BY THE OFFICE IN MANAGING THESE EXHIBITIONS WILL DETERMINE JUST HOW EFFECTIVE THEY ARE IN ACCOMPLISHING TECHNOLOGICAL EXCHANGE.

EDUCATIONAL CONFERENCES FOR U.S. SMALL AND SMALL DISADVANTAGED BUSINESSES ($50,000) -- THIS PROJECT SUPPORTS THE INVOLVEMENT OF SMALL AND SMALL DISADVANTAGED BUSINESS IN A.I.D.-FINANCED ACTIVITIES. SUCH A FIRM WILL BE SELECTED TO CONDUCT THE CONFERENCES, WHICH ARE BEING PLANNED TO HELP U.S. SMALL AND DISADVANTAGED BUSINESSES IDENTIFY CONTRACTING OPPORTUNITIES IN A.I.D.-FUNDED PROJECTS. THE CONFERENCE WILL COVER TOPICS CONCERNING TECHNICAL SERVICES AND COMMODITY PURCHASES BEING CONSIDERED IN DEVELOPING COUNTRIES. THE OFFICE WILL EXPLAIN THE NEWLY DEVELOPED EARLY ALERT SYSTEM, WHICH IDENTIFIES PROJECT OPPORTUNITIES FOR SMALL AND DISADVANTAGED AND WOMEN-OWNED FIRMS IN THE DESIGN STAGE.

CONCLUSION

AS THE SUBCOMMITTEE REVIEWS OUR PROGRAM IT CAN BE SEEN THAT THE BUREAU FOR PRIVATE ENTERPRISE, THOUGH OPERATING WITH A SMALL STAFF AND LIMITED BUDGET, HAS EVOLVED A BROAD-GAUGED PROGRAM TO STIMULATE PRIVATE SECTOR ACTION IN A.I.D.-ASSISTED COUNTRIES. WE HAVE EXPANDED OUR FOCUS TO INCLUDE HEALTH CARE AND COMMERCIALIZATION OF TECHNOLOGY IN ADDITION TO AGRIBUSINESS. WE HAVE CONTINUALLY EXPERIMENTED WITH NEW AND COST-EFFICIENT FINANCING MECHANISMS AND ARRANGEMENTS. OUR EARLIER PROJECTS ARE BEGINNING TO YIELD DEVELOPMENTAL BENEFITS. IT IS OUR BELIEF THAT THESE ACTIVITIES, COMPLEMENTING TRADITIONAL A.I.D. ASSISTANCE PROGRAMS, WILL PROVIDE A LASTING AND INCREASINGLY EFFECTIVE STIMULUS TO SELF-SUSTAINING GROWTH AND STABILITY IN THE THIRD WORLD.

PRIVATENESS OF PVO'S

Senator KASTEN. First of all, Julia, I think last year and the year before, we talked about the definition of a PVO.

I would like to know what the current status is. I do not have all the numbers that I have had in previous years, but we have been concerned about how a PVO really is defined as a PVO, if it gets 90 or 85 or 80 percent of its funding from the Government.

You said that you were developing private sector and other kinds of programs, and you did mention that you were trying to go to PVO's that received more outside contributions. I just wanted to get a sense of where you are in that whole area.

Ms. BLOCH. Senator, we very much understand your concern about the 50-percent requirement for eligibility for AID funding for PVO's.

We are now implementing the law that requires AID to move to a 20-percent privateness test. That law will go into effect in January 1985. We have now established procedures and regulations to carry it out. For example, we are sending out guidelines to insure that AID field missions, when they propose operational program grants, will assess the PVO's private funding sources as part of the project review process. We also have established guidelines to insure that in all of our AID-supported PVO activities there will be cost sharing.

For operational program grants that are administered by the missions, we are moving toward a cash contribution as part of the 25-percent non-AID support requirement. For the matching grants that are administered by the Private Voluntary Cooperation Office, I am very happy to report that 75 percent are matched dollar for dollar by PVO's.

Essentially, we are making very substantial progress in implementing the law that is on the books for a 20-percent requirement.

Senator KASTEN. As you know, I am not so sure that the 80–20 is the right definition, but we are pretty sure that 95–5 wasn't.

Ms. BLOCH. That is right.

Senator KASTEN. What we are trying to express is that 50–50 is better than 80–20. I don't want you to believe that if everything gets below 80–20 that now the problem has gone away, or the question has gone away.

Ms. BLOCH. No; it hasn't.

Senator KASTEN. I understand what you are doing, and I am pleased that you are moving in that direction.

Mr. MCPHERSON. You will remember, Senator, that we adopted the 80–20 rule before the law was passed. We have been really ahead of the law.

Senator KASTEN. In the law, I think we said, "moving toward," didn't we, rather than exactly 80–20?

Ms. BLOCH. It is 80–20 as of January 1985.

Senator KASTEN. We are all working in the same direction, and I just want to make sure that nobody starts to establish the fact that 80–20 is the threshold, because it may be something less than, considerably less than that.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

The committee has received a reprograming request for ASHA which details how the $30 million appropriated in this fiscal year is to be spent. What I want to know is how have you spent the $22.5 million that Congress provided above the administration's request. Do you have that information, or can you prepare that information?

Mr. MCPHERSON. We have not really looked at it that way. Congress gave us $30 million. I don't think that our proposal for the $7.5 million broke down how we would spend that $7.5 million, did it?

Senator KASTEN. I am assuming that you had people ranked with the initial dollars you would have gotten in this. When Congress came on and added the $22.5 million, these additional areas were funded. What I am trying to do is to ask which additional areas were funded as a result of the congressional action.

Ms. BLOCH. All of the ASHA proposals are reviewed and ranked together. We can provide you with a list of the rank order by reviewers, but we did not look at the ASHA pot as $7.5 million and $22.5 million.

Senator KASTEN. That rank order, I guess, is part of what we wanted, and then we can figure out where that line might have been.

Mr. MCPHERSON. We will give you everything we have.

[The information follows:]

Ranking of FY 1984 ASHA Grantees

The $30 million ASHA budget for FY 1984 was allocated to the following institutions which are shown in the order of their ranking based on the assessments of reviewers from within and without the Agency.

Institutions	Amount
Bangkok Adventist Hospital, Thailand	$ 725,000
Panamerican Agricultural School, Honduras	1,700,000
Ateneo de Manila University, Philippines	1,200,000
University of the Valley of Guatemala, Guatemala	700,000
American Farm School, Greece	350,000
Mwami Adventist Hospital, Zambia	600,000
Payap College, Thailand	500,000
Cuttington University College, Liberia	650,000
American University of Beirut, Lebanon	5,000,000
Robert College, Turkey	280,000
Esperanca, Brazil	150,000
Sogang University, Korea	550,000
Loyola Secondary School, Sudan	425,000
American University in Cairo, Egypt	1,000,000
Francisco Marroquin University, Guatemala	1,000,000
Project ORBIS	1,000,000
Ludhiana Christian Medical College, India	500,000
Hadassah Medical Center, Israel	1,500,000
Maru a Pula School, Botswana	550,000
American Center for Oriental Research, Jordan	400,000
Good Shepherd Hospital, Zaire	715,000
Anatolia College, Greece	375,000
Project HOPE Schools of Health Science	1,500,000
Bethlehem University, West Bank	1,000,000
Kwangju Hospital, Korea	250,000
University of the Americas, Mexico	500,000
Athens College, Greece	275,000
Admiral Bristol Hospital, Turkey	400,000
American British Cowdray Hospital, Mexico	1,000,000
Hospital de la Familia, Guatemala	125,000
St. George's College, Jamaica	625,000
American Children's Hospital, Poland	750,000
American College of Greece, Greece	380,000
Vellore Christian Medical College, India	400,000
Shaare Zedek Hospital, Israel	500,000
Jerusalem College of Technology, Israel	250,000
Feinberg Graduate School of Weizmann Inst. of Science, Israel	1,200,000
Bologna Center of Johns Hopkins University, Italy	325,000
Kfar Silver School, Israel	200,000
Beth Rivka Comprehensive School, Israel	450,000
Total	$30,000,000

AMERICAN UNIVERSITY OF BEIRUT

Senator KASTEN. In our 1984 report, the committee directed AID to immediately determine sources of funds to assist the American University in Beirut, particularly so that the American University Hospital could continue its operation unhampered by budget restraints. Clearly there have been an awful lot of additional problems there.

No. 1, is it possible for you to give us a brief breakdown of the funds to the American University in Beirut, just generally what was done there? It is my understanding that it is about $12 million so far this year.

Mr. McPHERSON. It is $12.6 million this fiscal year, $5 million from ASHA and $7.6 million from ESF. We will provide a complete breakdown for the record.

[The information follows:]

U.S. Assistance to the American University of Beirut FYs 1982-84

	DA Scholarship Program	Disaster Approp.	ESF	ASHA	Total
FY 82	3,082	3,000	1,500	4,000	11,582
FY 83	2,918	7,000	-	4,000	13,918
FY 84	-	-	7,600	5,000	12,600
Total	6,000	10,000	9,100	13,000	38,100

What percentage of AUB's operating budget does this assistance mean for each year?

The following table shows the percentage of AUB's operating budget met by AID for the past two years and as projected for the present year. The table is adjusted to reflect use of AID funds by AUB's budget year, which begins on July 1. The table also reflects the disbursement of scholarship funds over several years and that an approximately equal amount of scholarship funds directly assist students rather than AUB. Accordingly, only that portion of scholarship funds disbursed, but not used for direct student costs, are included within the AUB expenses and in the AID contributions columns.

AID's Contribution to AUB's Operating Budget

AUB Budget Year	AUB Expenses ($ in Millions)	AID Contribution by Fiscal Year ($ in Millions)		Percentage AID
		FY 1981	$ 1.5	
1981-82	$54.7	FY 1982	5.0	
		Scholarships	.8	
		Total	$ 7.3	13.3
		FY 1982	$ 3.5	
1982-83	$70.0	FY 1983	6.0	
		Scholarships	.6	
		Total	$10.1	14.4
		FY 1983	$ 5.0	
1983-84	$79.1 (est.)	FY 1984	12.6 *	
		Scholarships	.5	
		Total	$18.1 *	22.9 *

* The FY 1984 ASHA and ESF total is $12.6 million of which $3.8 million from ESF remains to be granted. If this is applied to AUB's 1983-84 budget year, the figures will stand as shown. If the remaining $3.8 million is granted and used in AUB's budget year 1984-85, the figures will be reversed downward accordingly: the $12.6 million figure would be $8.8 million, the $18.1 million figure would be $14.3 million and the AID percent figure of 22.9 would be 18.1%.

STATUS OF FUNDING FOR BEIRUT UNIVERSITY

Senator KASTEN. We are all aware of the tragic events of the senseless murder of Dr. Kerr. What is the current situation there vis-a-vis our funding and our participation, and frankly what do you anticipate or are planning in terms of what is going to become of our efforts at the American University?

Mr. MCPHERSON. We spent an awful lot of money on those activities. The figure in 1982 was $11.5 million, and in 1983, it was almost $14 million. So far this fiscal year, it is $12.6 million. This money has come from a variety of sources, namely: ASHA, the development assistance scholarship program discontinued in fiscal year 1983, OFDA, and a substantial amount of money—particularly incremental increases—has come from the Lebanon program, and that is for the hospital and for the school.

We think that we really have to continue to make an effort there. AUB is a substantial resource for America and for like-minded people; and I would expect to continue to put quite a lot of money into it. I think, frankly, that we are going to have to draw money, not just from ASHA, but also from the Lebanon ESF moneys, at least a portion of it.

So as to centralize the management of our AUB activity, we now have the management activity, the various grants, review of the funding, and so forth in the Near East Bureau, because we had so many fragments. It is a tragic thing, because up until a year ago there was no damage done to the campus at all, but recently there has been about $500,000 of damage done to the campus.

Senator KASTEN. As you know, the committee is supportive. I share your support of the efforts there, and clearly we all look to that university as a tremendous success in the region. We will look forward to working with you in terms of providing the assistance that is needed. I am afraid that it might be assistance of a whole different kind, because of the problems there.

Mr. MCPHERSON. Yes.

AMERICAN UNIVERSITY OF CAIRO

Senator KASTEN. Related to that, you provide financial support to the American University of Cairo as well. Do you believe that such support should be continued in the future? It seems to me that with the American University in Beirut now under at least some question in terms of the danger, et cetera. Apart from that, the American University in Cairo has been educating, I am told, an increasing number of students, not only from Egypt, but from the region. Frankly, that increase in students, I am told, is going on without a significant increase in the level of AID assistance.

Given the critical nature of the United States-Egyptian relationship, and the role of the American University of Cairo and what is going on at AUB, would you consider this to be a good time to expand the level of assistance at the University of Cairo?

Mr. McPHERSON. We view the American University of Cairo as an important institution. It is interesting to note, I think, that our current mission director, who has been there about a year and a half, was recruited from outside the Government. At the time he became the mission director in Egypt, he was on the board of directors of the American University of Cairo. It makes a point about the importance of that institution, how we work with it and draw from it.

As to whether or not we think they should have more money at this time, frankly, I don't have a view. However, I would be happy to look at that further; and, perhaps, Julia, might have a comment.

Ms. BLOCH. We are providing $1 million from ASHA to AUC in fiscal year 1984. In addition, AUC is drawing down approximately $3.5 million equivalent from the $14.3 million equivalent excess Egyptian pound grant made in fiscal year 1981. AUC will be submitting a larger request for fiscal year 1985. At this time, we don't have all of the facts in our hands in terms of exactly what kinds of expenses they need to have ASHA meet. So we will be looking at that very carefully, and we will certainly take into consideration your interest and concern.

Senator KASTEN. Do you agree with my assessment of the situation? Are there more significant numbers of students coming from the region? Are they increasing their enrollment?

Ms. BLOCH. I am not sure that significant would be the characterization, but there are reports that they are getting more students. We will definitely check into that factor.

[The information follows:]

NUMBER OF ACADEMIC STUDENTS

Over the past 3 years, that is, from academic year 1979–80 to 1982–83, the number of full- and part-time academic students increased from 1,747 to 2,333. The number of students from Arab countries, other than Egypt, increased from 89 to 214 and the number of African students increased from 35 to 135. The number of students enrolled in the extension program increased from 9,261 to 10,452.

SHORTAGE OF CLASSROOM SPACE

Senator KASTEN. Among other things, we are told that they are running out of classroom space. I think that this might be an area that, for a number of different reasons, we might want to pay special attention to AUC this year because of some of the changes that are going on at the other university.

POPULATION PROGRAMS

Let me switch quickly. I don't think that either of us is interested in getting into another controversy in terms of abortion and population planning at AID. As you know, I support the population programs, and it is because of that support that I am anxious that the whole question of abortion does not get in the way of the population programs.

What are you doing to make sure that the questions of abortion and abortion funding and related activities are not going to get in the way of population programs over the coming year?

Mr. McPherson. We try very hard, and I think that when disinterested people look carefully at the record, they can see it is really excellent since we came in. Within days after I became administrator, I made the decision to implement the spirit of the Helms amendment, not just the most technical letter of that amendment, which talked about abortion expenditures. There had been some research related expenditures prior to that.

A number of other controversies and questions have been worked through. We are now looking again at the accounting procedures that we have in place. In the past, we felt that they were adequate, but recently some have been questioned again, and we are looking to try to sort that through. We worked through the Pathfinder question, as you remember, in a fashion that I believe was quite satisfactory to various parties, and I think it addressed some of the issues that were raised at that time.

I find, frankly, that there isn't really an abortion issue or question at AID. I really don't think there is. Those who sometimes don't like the family-planning main program, raise some of these issues and try to have that spill over, but I believe that, in fact, we have addressed the main thrust of those abortion issues. I have felt from the beginning that was what the President wanted, and I think that is the way to maintain the broad support for this family-planning program in the country, and I am committed to do that.

COMMODITY IMPORT PROGRAM MANAGEMENT

Senator Kasten. On the 1st of March, the GAO issued a report that was critical of the agency's management of the commodity import program, a half-billion dollar a year foreign aid program. I assume that you are generally familiar with the program, and I would like your assessment of how the agency's control over the commodity import program slipped.

I guess, more importantly, what do you propose to do about preventing the kind of lapses of prudent management and oversight and accountability which the GAO report pinpointed?

Mr. Rollis. That concerned, I think, the importation of fertilizer in Zambia, and four other countries in Africa. The agency responded to the tune of something like 25 pages; it is a very complex subject. There is no question, as the GAO pointed out and we concede, that weaknesses existed in the five countries that they looked at, but there are differences.

The Zambia fertilizer question was especially disturbing. Difficulties there had to do with the transport of the fertilizer out of the port and into the country, the problems of storage, the problem within the government of ordering at the wrong time and not accepting the responsibility for storage and movement.

The procedures that we have in the commodity import program are adequate as long as the performance follows those procedures and backs them up. The problem is that the exploration of what happened there came after the fact. So oftentimes, we are able to determine that there is a problem, but by then it has compounded itself.

The other type of thing in the report was, I believe, the attribution problem in Sudan, and that was a totally different problem. We had assurances from the Mission at the time that they had documented a major amount of U.S. commodity imports attributed to a grant that had been made.

We are concerned with the problems, and we have been fully responsive in great detail as to each of the five countries, and we will be glad to supply that to the committee.

[CLERK'S NOTE: The report will be retained in the subcommittee files.]

COMPETITIVE PROCUREMENT CONTRACTS

Senator KASTEN. In fiscal year 1983, AID awarded about $237 million in direct contracts. Of this total, $139 million, or 63 percent, were awarded competitively. What I am concerned about is the other 37 percent, roughly $88 million, that were awarded noncompetitively.

How many competitive contract agreements were made in 1982, and how many in 1983, and I would be interested in what you are planning for next year. I want to get a sense of whether you are starting to change that. You and I have spoken about that.

We are working for competitive contracting in jet engines in the Defense Subcommittee. Related to this is a concern that some of my constituents have brought up from time to time, how many times are we going back to the same old bureaucracy—that relates to what Senator Rudman was talking about indirectly—the same old contractors, the same old consultants, the same old methods, the same old ways of doing things, rather than getting new people in, and those new people having a stronger private sector interest than some of the people who have been running these programs over the years.

You might want to comment just generally on competitive versus noncompetitive, and then provide for the record some of the additional information.

Mr. MCPHERSON. We would like to provide that detail for you in the record, Mr. Chairman, and to say, of course, that we are aware of the general requirement that contracts should be let competitively.

[The information follows:]

AID DIRECT CONTRACT AWARDS

	Dollars	Percent of total awards
Fiscal year 1982:		
Negotiated competitive awards	$166,231,000	69.0
Formally advertised awards	7,914,000	3.3
Noncompetitive awards	66,693,000	27.7
Fiscal year 1983:		
Negotiated competitive awards	138,146,000	58.7
Formally advertised awards	10,677,000	4.5
Noncompetitive awards	86,649,000	36.8

SET-ASIDE PROVISIONS

Mr. McPherson. There is, as you know, an established criteria for determining when there should be exceptions to the general rule, situations such as the set-aside provisions, for example, and where there is an emergency. We have done some things, in El Salvador for example, a couple of times in recent days, to move ahead.

What we really need to do is to provide you that data so that you can have a sense, overall, of where we are, and we can really discuss it, if it appears to you that there is a problem.

Mr. Rollis. I might add to that definition of competitive versus noncompetitive, for instance, in that $49 million, I am sure is included $24 million worth of minority, small business, and female set asides. While those are limited competition, what we do in 8(a), we may invite five 8(a) contractors to present their programs. So some that are listed as noncompetitive, are really limited competition.

BUREAU FOR PRIVATE ENTERPRISE

Senator Kasten. In terms of private sector, in the discussions of the Economic Policy Initiative for Africa, you target private sector development as part of a threefold strategy. We spoke about that briefly, but I would like to know, what do you anticipate the Private Enterprise Bureau's role would be in the EPI?

Mr. McPherson. I think the Bureau's role relates to the agencywide efforts. The Bureau has been a really very effective advocate and technical backstop for privatization, but I don't see it having a unique or specific role in the EPI, although the EPI efforts would certainly backstop and encourage privatization and policy reform in the countries involved. In short, the Bureau is really engaged in an agencywide function.

Senator Kasten. So that you don't have an overlap.

Mr. McPherson. There is no overlap there.

Senator Kasten. It is a different area.

TRADE AND DEVELOPMENT PROGRAM

You are requesting an increase for the Trade and Development Program (TDP).

Mr. McPHERSON. Yes, sir.

Senator KASTEN. It is nearly 25 percent.

Mr. McPHERSON. Right.

Senator KASTEN. Is that increase an indication of the demand for the program, and should Congress decide, could you use even more funds for the program, which as you know is one that has been strongly supported up here on the Hill. That is one that we have all liked, but the 25-percent increase is a significant one. What is the situation here?

Mr. McPHERSON. I think that we really don't think that we should ask for more than that. We think that is a sizable enough increase to be sure that we can effectively use all of it. In fact, we have really allocated virtually every dollar of our fiscal year 1983 moneys already.

Senator KASTEN. So if we went over and above that number, you could still use the money. I am not saying that you can't ask for more money for that program, I guess, I am just trying to get a feel.

Mr. McPHERSON. What I am really saying is that I think that, given the competing demands, a 25-percent increase seems reasonable, and that is what we really think we probably ought to have.

The program is a good little program. It generates a lot of sales. There are a lot of U.S. sales out of that. It is interesting, one of the strongest backers of that program is Secretary Baldrige, who gets quite personally involved in a number of these TDP transactions. That indicates the kind of impact that that operation has.

Senator KASTEN. There are a number of further questions that the committee has, but I think in the interest of time, we are simply going to have to wrap this up.

I want to thank you very much for, not only your appearance here this morning along with your associates, but for the very close working relationship which you have established with members of the committee, and members of the staff.

I want to thank all of your Directors and Assistant Administrators. I realize that these are unusual circumstances, but I appreciate the fact that everyone was able to get together and get as much done in as short a period of time as we had today.

SUBMITTED QUESTIONS

As I said before, there will be questions for the record. I look forward to working with you as successfully as we have worked over the past couple of years. I thank you very much for your leadership.

Mr. McPHERSON. We thank you, Senator.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

EPI AND POLICY REFORM

Senator Kasten: Why is "New" money (under the EPI) more likely to stimulate policy reform than the development aid balance of payments support, and Security Assistance already going to these African countries?

We all have sympathy for those North African countries that have experienced strong, negative reactions from their citizens to their attempts at economic reforms -- Tunisia and Morrocco come immediately to mind. What makes you think that this EPI will have more luck at instigating these very unpopular reforms than these countries have already had on their own or at the behest of the International Monetary Fund?

Indeed, policy reform efforts are often not well received by the recipient governments themselves. How closely are A.I.D. and the State Department willing to link policy reform with future assistance levels of any description?

Mr. McPherson: The EPI funds are more likely to stimulate the policy reform process than other aid instruments because policy reform is its principal objective, and we have designed it specifically to support the reform process. The Development Assistance (DA) account is devoted to project assistance geared to overcoming institutional, physical and human resource limitations. Given that focus, the DA account supports activities that are often only loosely related to the types of policy reforms the EPI is expected to support. Moreover, the DA account procedures do not allow the flexibility we believe is necessary for a successful policy reform initiative. That is why we have requested that the EPI be a no-year fund, that it not contain functional account limitations, and that there not be a predetermination of which countries will participate.

The ESF and PL 480 programs are better-suited to supporting a policy dialogue and reform program; but with different legislative bases, they are not always available or appropriate either. For instance, the EPI will be available to a wider range of countries than are ESF monies.

In short, DA and ESF assistance have limitations as policy reform instruments. The EPI, with policy reform support as its sole raison d'etre, will be a more powerful instrument to stimulate the policy reform process.

Major policy reforms are difficult for developing countries to undertake because this often requires short-run belt tightening. We do not have delusions that all countries will commit themselves to such a process. However, for those that are willing, the EPI can help to ensure that transition period problems are minimized. In many sub-Saharan African countries, raising producer prices for food does not necessarily translate into higher actual consumer prices. Low official retail food prices are often irrelevant since much food is traded at unofficial prices. Freeing the marketing system from undue restrictions can conceivably allow higher prices to producers and greater food availability with no higher prices for consumers.

The various assistance instruments available to A.I.D. serve different functions and, therefore, tying future aid levels only to policy reform would not be realistic. However, country Development Assistance levels have been and will undoubtedly continue to be affected by the policy environment. Countries such as Ghana and Tanzania with poor policy environments are receiving lower relative levels of assistance because it is difficult to program assistance effectively. Similarly countries with relatively good policy environments such as Malawi and Cameroon are receiving relatively more DA funds.

EPI AND DONOR COORDINATION

Senator Kasten: It is my understanding that the Africa Bureau has made an effort in recent years to better coordinate its assistance programs with other international donors. I know this has been at least a goal of the Sahel Development Program.

How is the EPI a "catalyst" for improving donor coordination?

Aren't those efforts already under way in the Sahel Development Program and in the Africa Bureau?

Mr. McPherson: There are already numerous mechanisms for donor coordination in Africa. These include World Bank led Consultative Groups in eight key countries and UNDP-sponsored roundtables. There are regional coordinating groups such as the Club du Sahel/CILSS organization for the Sahel and SADCC in Southern Africa. The Cooperation for Development in Africa (CDA) mechanism is organized along sectoral lines. There are also many in-country coordinating groups, some more formal as in Zaire, Sudan and Kenya, others less so.

The EPI is intended to reinforce these efforts and to call particular attention to the need for coordination at the policy level. It demonstrates concern with Africa's economic problems at the highest levels of the U.S. Government. In that respect, it has already had an important catalytic effect. Virtually every major donor has been in contact with us to echo the importance of policy reform and better coordination. Some have already proposed collaborative action in selected countries. Perhaps more importantly, several African governments have also expressed their agreement of the importance of the EPI's tenets.

Senator Kasten: How can A.I.D. be confident that it is advocating the proper reforms when, as the GAO Report noted, many missions are not coordinating their efforts with the major bilateral and multilateral African aid donors?

Mr. McPherson: Donor coordination and communication with host governments on policy reform as well as project development matters has improved substantially over the past few years. This has occurred at headquarters as well as at field levels.

An important element of A.I.D.'s efforts to improve multilateral coordination is the Early Project Notification System that we implement with the World Bank. Under this system, U.S. field missions have an opportunity to comment on IBRD projects at early stages of development and raise important policy as well as technical issues. Both missions and headquarters work together to insure full discussion of these issues.

The U.S. is also very active in Cooperation for Development in Africa (CDA), an organization of the seven major Western donors active in Africa, whose purpose is to improve coordination at the sectoral level in terms of actual project development and implementation. Among other activities, CDA is assisting selected countries to develop forestry sector plans based on a coherent analysis of country needs and designed to address crucial policy questions.

Recently, as a follow-up to the policy meeting of the OECD's Development Assistance Committee, where the need for improved policy coordination was a major topic of discussion, I directed the principal African missions to contact their OECD counterparts in order a) to initiate joint discussions on important policy issues if this were not already being done and b) to raise key policy issues with host government officials as appropriate. It is important to recognize that some host governments are wary of such donor activities, which they sometimes view as "ganging up."

The Club du Sahel, UN-led donor Roundtables, and Consultative Groups are established mechanisms which can lend themselves to policy discussions. The U.S. has intervened with the World Bank to argue for the Bank's sponsorship of an increased number of Consultative Groups, where policy discussions are often the most successful.

Innovative developments in donor coordination include the formation, in several countries, of ongoing donor committees whose general purpose is to continue discussion of major development issues in between formal meetings. A Joint Monitoring Committee charged with tracking the progress of the economic recovery investment plan is in operation in Sudan. Groups have been created in Kenya and Zaire subsequent to CG meetings for those countries. In Senegal, we are encouraged by the progress made to date in our ongoing meetings with France and the World Bank, where we have been able to engage in broad based discussions of sectoral policy issues.

In Mali, donor efforts have been instrumental in assisting in a restructuring of cereals price policy.

Furthermore, since the announcement of the Economic Policy Initiative, a number of donors including the EEC, the U.K, Canada, and Germany have contacted us to express interest in cooperating with the U.S. in this program.

To sum up, AID's involvement in coordination of policy and project initiatives in Africa is substantial. There is room for improvement, and each country must be treated on a case-by-case basis: some governments are more receptive to joint donor activities than others and the level of donor representation also varies by country. Given limited resources and staffing in many cases, AID is encouraging African missions to respond to the recognized need for improved donor coordination by the most appropriate means at their disposal.

It should also be recognized that the incentive structure for producers is so unrealistic that the need for policy reform and the direction reforms should take is clear. As basic reform decisions are made and further policy adjustments take on the character of fine tuning, it will naturally become more difficult to establish a "proper" policy agenda. Thus, as the reform process proceeds, donor and host country coordination on policy reform will become increasingly crucial.

That is the very purpose of the EPI. In that respect, it is very much in keeping with the spirit of the GAO report.

POLICY REFORM IN SUB-SAHARAN AFRICA

Senator Kasten: While there are a number of reasons for the current agricultural crisis in sub-Saharan Africa, host government policies are recognized as a major cause. Agricultural producers are not provided with either appropriate incentives or suitable economic environments to make it worthwhile to produce beyond the subsistence level. Although A.I.D. has established and publicized the importance of policy reform, a 1983 GAO Report found that, at the country level, A.I.D. often does not have an ongoing viable program in place which recognizes the inherent difficulties in realizing policy reform and the potential long term effort involved.

What actions has A.I.D. taken to ensure that its sub-Saharan Africa missions are undertaking effective policy reform programs?

What has A.I.D. done to ensure that its missions have the capability to undertake such a program?

Mr. McPherson: It is unrealistic to expect that AID will undertake policy reform programs in all or even a majority of African countries. Of the 44 countries in Africa that receive some form of U.S. assistance only 17 have A.I.D. missions with staffs that are of a sufficient size to become heavily involved in policy reform programs. In a few others the size of the A.I.D. staff and/or support staff in Abidjan and Nairobi (REDSOs) may allow substantial policy reform analysis.

Given this caveat, A.I.D. has initiated several major actions to expand our policy reform agenda. (1) Policy reform has been accorded highest priority in the Africa Bureau's overall strategy. This alerts Missions to the importance to be given policy. (2) The Economic Policy Initiative for Africa directly addresses agricultural policy issues. (3) The Africa Bureau is supporting at least 15 projects in Africa which directly address one or more aspects of agricultural policy reform and in at least ten cases program assistance (mostly PL 480) is aimed clearly at reform. More importantly for the longer term the Bureau is supporting 25 ongoing projects in 13 countries that are primarily concerned with agricultural planning and policy analysis and an additional six projects are in the design stage. (4) The Bureau is in the process of establishing Indefinite Quantity Contracts (IQCs) with outside organizations to provide additional policy analysis capability on short notice. (5) In Sudan, Kenya and Somalia, our three largest programs, several million dollars of ESF have been set aside for policy analysis. (6) New agricultural sector assessments will be done in Senegal and Somalia this year. (7) The Africa Bureau is also reviewing such Africa-wide policy related issues as food supply and demand by the end of the decade and the importance of economic returns to agriculture at the farm family level, and (8) the Africa Bureau has increased its number of economist positions to improve its policy analysis capability. Those positions will all be filled within the next four months.

LIBERIA

Senator Kasten: Several years ago, when Master Sergeant Doe came to power in Liberia, and for some time thereafter, the economic situation in that country was quite bleak; in some cases the Government did not know how it would be able to pay for oil that was already on the boats steaming for Monrovia.

What is the economic situation in Liberia today?

Mr. McPherson: While still bleak, the Liberian economic situation is somewhat better than when Sgt. Doe come to power several years ago. We are hopeful that as the new Government's capacity develops and demand for Liberia's traditional exports increases, the economy will recover from it sustained slump. In the interim, A.I.D. and other donors are assisting Liberia with its short-term macro-economic and other development problems.

STATUS OF AID PROGRAM - CHAD

Senator Kasten: What is the status of our A.I.D. program in Chad, and how has the conflict between Libya and Chad affected that program?

Mr. McPherson: Chad is suffering from the devastation of civil strife and natural disasters. The cumulative effects of years of drought, 18 years of internal fighting, as well as the July 1983 unprovoked Libyan invasion and occupation of the northern region have severely disrupted Chad's fragile economy.

Since the re-establishment of a permanent A.I.D. mission in Chad in January 1983, United States economic assistance to Chad for the next five-year period has two central and interrelated objectives. First, we are working with the Government of Chad (GOC) and the community of other donors to help the country bind up the wounds of the debilitating 18 years of conflict, to re-establish a sound and functioning administration, to recreate and revitalize essential public services, to provide such relief as may continue to be necessary to displaced and destitute segments of the population, and to rebuild essential infrastructure destroyed by war. These actions will also help Chad to consolidate national unity among geographic and ethnic components, and strengthen Chad's ability to defend itself against external threats. Second, we are collaborating with the Chadian Administration and other A.I.D. agencies to help the nation overcome the many imposing obstacles to development which, even before the war's destruction, left it among the poorest, least endowed with respect to health, education and social amenities, and most subject to drought and environmental degradation.

Although the military situation is stabilized due to the French presence along the 16th parrallel in the northern part of the country, the A.I.D. program is hampered because of the disruption of government administration brought about by the civil war and the Libyan invasion. The majority of the country's resources, both human and otherwise, have been directed toward military defense. In spite of this the GOC has continued to impress all donors operating in the country with its honesty and dedication to the swift reconstruction of the country.

The A.I.D. FY 83-84 program, totalling $15 million, addresses emergency relief and reconstruction efforts, namely the provision of P.L. 480 emergency food assistance, medical supplies, and the rehabilitation of irrigation perimeters and roads. In addition, the planned ESF $3 million in FY 84 will address Chad's severe budgetary deficit by providing general budgetary support to pay civil servants salaries and operating expenses of key development ministries. In FY 85, based upon the results of an intensive effort to further define Chad's development constraints and development potential, we propose to channel $15 million into relief and rehabilitation activities and specific sectorial pursuits, e.g., health, agriculture and infrastructure.

BOTSWANA

Senator Kasten: Can you tell us why you requested $10 million for Botswana under the agriculture and education accounts during FY 1984 and are requesting $10 million under the Economic Support Fund for FY 1985?

It appears that the funds had traditionally been under the ESF account until last year and now you have switched it back. Why?

Mr. McPherson: The Administration did not request Development Assistance (DA) for Botswana in FY 1984. However, notwithstanding A.I.D.'s FY 1984 request for funding under the Economic Support Fund (ESF) for Botswana -- as has been the case for the past several years -- Congress specified that the program was to be funded at $10 million under the Development Assistance account.

Nonetheless, the Administration continues to be lieve that ESF is more appropriate for Botswana. The USG is interested in promoting political stability and economic development in the Southern Africa region. Botswana is amember of the "Front Line States" and has been a moderating influence in attempts to work out peaceful solutions to problems of majority rule in the region. In addition, the Botswana Government has demonstrated its willingness to assist the United States Government, as evidenced by the location in Botswana of a NASA ground-tracking station and a major Voice of America transmitter. Botswana is also a potential export market for United States products and technology. The allotment of FY 1985 funds under the Economic Support Fund account seems more appropriate for USG interests and development programs in Botswana.

ZIMBABWE

Senator Kasten: You have cut the Zimbabwe program by $10 million; but I see that a $25 million cut is made to the ESF account, and you have added $15 million under the population and education functional accounts. Why the switch?

Mr. McPherson: In FY 1985 we enter a transition phase in our program in Zimbabwe as we move from an economic support program to a development assistance program. Since a major portion of our ESF-funded program has much in common with traditional DA-funded projects, we have proposed splitting FY 1985 funding between DA and ESF accounts to reflect the development assistance rationale behind the remaining portions of the program. DA funds are requested to continue education, training and family planning programs.

The $30 million funding request for FY 1985 is for the following specific projects:

	DA	ESF
Basic Ed. & Skills Training	6,569,000	3,700,000
Zimbabwe Manpower Development	5,139,000	
Child Spacing & Fertility	3,292,000	
Zimbabwe Ag Sector Assistance		11,300,000
Total	15,000,000	15,000,000

PROGRESS IN THE SAHEL

Senator Kasten: What is AID's reaction to the recent Club du Sahel report finding that there has been no economic improvement in the Sahel, and no progress toward the goal of food self-sufficiency since the mid-1970's?

Reports of the Agency's Inspector General quite clearly support such an assessment. Two reports issued in recent weeks examine, in one case, the repetitive failures of AID's agricultural credit programs in the Sahel, and in the second the serious design and implementation problems plaguing AID's food production projects in the region. Most disturbing from the subcommittee's perspective is the agency's apparent inability to learn from early failures and disappointments. We have spent a great deal of money with little to show from our effort. You are asking in this budget for more. Quite simply we cannot continue to fund failure.

What can you do? What are you doing to begin to reverse this disappointing record?

Mr. McPherson: Regarding your reference to the two recent audit reports, one should first note that both recapitulate and focus on problems and findings brought to light in earlier individual IG project audits dating back to 1981. Of the 83 recommendations made in these earlier audits, we have satisfied 68 to date. As for the broader recommendations surfaced in the most recent reports, we acknowledge that our agriculture projects have been overly ambitious in many instances and that with respect to credit programs they have not been as successful as we would have hoped for. Regarding the former, I would argue that we have not necessarily failed but have simply not achieved in all cases some of the lofty, albeit well-intentioned objectives we set for ourselves.

In the case of the ag credit audit, I would point to the Sahel Regional Financial Management Project and the 121(d) certification process which now allow us to monitor more closely, than at the time of those audits, the host-country accounting capacity.

With respect to the Club's report, having been one of the leading proponents of the Club's taking an objective assessment of the status of the Sahel, AID quite naturally supports the Club's report, adding, however, that without the infusion of AID and other donor assistance the Sahel would have been in a more serious plight than is now the case. Nevertheless, the goal of regional self-sufficiency has been most certainly stymied due largely to:

- increasing population growth which continues to outpace increased food production;
- a recurring regional drought the magnitude of which equals or in some countries surpasses that of the early 70's;
- many Sahelian countries having phased down ag extension efforts in order to comply with IMF conditions governing levels of public service workforce;
- the development of dryland ag technical packages have thus far been less successful than expected in improving Sahelian ag productivity.

As for what we propose to do, in view of the above, AID intends to:

- aggressively pursue the introduction of family planning activities in conjunction with its primary health care projects;
- increasingly support irrigated agriculture activities which offer the only added hope to overcoming future adverse climatic patterns in the region;
- encourage Sahelian countries to focus ag extension efforts principally upon target groups, areas and technology which are respectively: (1) more responsive to innovation/risk;

(2) are accessible and have significant production potential, and (3) for which the technical packages have proven viable;

- redouble our efforts in dryland ag research to develop primarily new varieties which have greater yield potential and pest resistance.

It is noteworthy that during the previous six years the Sahel did not have the benefit of governmental policies favorable to farm production. Through program assistance we have just begun to leverage policy reform which will shortly provide an environment more conducive to expanded farm production. AID also expects to exert increased policy reform through the regular program, PL 480, as well as, in selected cases, through the Economic Policy Initiative.

SAHEL - HOST GOVERNMENT CAPABILITIES

Senator Kasten: The Sahel Region of Central West Africa is one of the poorest, drought-prone areas of the world. The United States is the fifth largest donor in the Sahel, with assistance over $100 million in 1984 and $582 million since 1978. However, the expansion of economic assistance and the proliferation of donors has imposed heavy burdens on the limited Sahelian government administrative capabilities and may be weakening these capabilities rather than fortifying them.

What effect does the lack of host country administrative capability in the Sahel have on possible economic improvement in the area?

Mr. McPherson: Host-country capacity has a pivotal effect on our and other donor assistance efforts. For that reason, our Sahel activities are increasingly focussing on manpower development, providing training for mid-level managers and technicians. Most all of our project undertakings provide requisite training in order to assure that host countries have the institutional capability to sustain the activities we initiate. Concurrently, we have within the SDP a regional activity that addresses training needs that complement our country development strategies. Since that project's initiation in 1980, we have trained approximately 400 Sahelians.

Senator Kasten: As long as host governments continue to lack basic administrative capabilities, is it worthwhile to continue the Sahel program as currently structured?

Mr. McPherson: A.I.D. and other donors must make a concerted effort to work within the constraints of current Sahel governments' administrative capabilities, while at the same time helping to increase their capacity for absorbing, planning, managing and executing development activities.

We have in the Club and the CILSS the base for effective dialogue, one that has already led to host countries and donors alike recognizing the recurrent cost burdens of their individual projects. There is, however, a need to go further; that is, for A.I.D. and other donors to assess more carefully the impact that all our projects as a whole have upon the country in question. In concert with the Club we intend to take the initiative: to develop fewer, less complex projects; to focus project efforts in only two or three sectors; to recognize the urgent balance of payments and recurrent costs problems and address these through the infusion of non-project and PL 480 Section 206 assistance. Concurrently, we will continue our efforts to improve host-country institutional capacity through training -- on the job, within third countries in Africa, and in the U.S. Over 800 Sahelians were trained in the U.S. within the past five years in such disciplines as agronomy, entomology, plant pathology, agriculture economics, veterinary medicine, fisheries, agriculture education, civil enginering, ecology, public health, family planning, nutrition, sociology, rural development, communications, non-formal education, public and business administration and financial management. In order to strengthen host-country financial management, we have conducted intensive short-term training programs for over 300 Sahelians to date.

Senator Kasten: Are Sahelian governments overly burdened with donor unique administrative requirements and, and if so, what steps is A.I.D. taking to reduce the burden, either unilaterally or with other donors?

Mr. McPherson: This is a problem. Frankly, we and the World Bank probably pose the greatest burden in view of our demands for thorough project analysis and implementation. We believe, however, that this has served a useful purpose insofar as encouraging host-country participation and ultimate responsibility for their own long-term development. Nevertheless, both we and other donors are trying to minimize the burden through greater donor collaboration, especially focussing on reducing recurrent cost and manpower demands as part of the activities we develop. Moreover, with respect to project assistance we are, as previously mentioned, attempting to reduce the ambitious nature/complexity of our assistance and concentrate our resources in fewer projects and sectors. Concurrently, A.I.D. is, where the macro-economic situation warrants, providing a greater percentage of our assistance in the form of program assistance grants.

INDONESIA

Senator Kasten: If the Government of Indonesia is allocating the largest portion of its development budget to education, and if the secondary school enrollment is only 22 percent, and if there is a 30 percent unemployment rate in the cities and underemployment is growing in rural areas, why is our education program for Indonesia being cut by 38 percent? (From $8,650,000 to $3,250,000).

Mr. McPherson: Education is the single largest item in the GOI budget and a high priority for the government. The GOI is receiving massive amounts of assistance (close to a billion dollars over the next decade) from the World Bank and the Asian Development Bank to assist in this sector. Nevertheless, AID FY funding levels are not an appropriate measure of project activity since many projects, especially loan-funded ones, receive all the money at the beginning and there is very little incremental funding. Nor do figures based on account levels tell the whole story, for a number of education-type activities may be funded from other accounts, such as 103 and 104. In fact, year-to-year disbursements for project implementation, in contrast to obligations, tend to be fairly stable for most projects.

AID policy in the Education sector has been to concentrate our limited resources on those projects with maximum catalytic effect, and we are continuing to do so. Three projects which are being phased out (Eastern Islands Agricultural Education, Self-Instructional Learning Systems and Educational Communications Development) have been very successful and the GOI is prepared to continue these efforts on their own. In line with the AID strategy to consolidate the Mission's portfolio but maintain greatest impact, our present and future projects will focus on providing assistance in planning and policy, the training of managers and in the field of agriculture and basic science with an emphasis on promoting outreach programs. In order to be consistent with overall AID strategy, projects in the education sector are being designed to emphasize technical assistance rather than inputs of commodities, resulting in lower costs to individual projects.

FUNDING SHIFTS FOR THAILAND PROGRAM

Senator Kasten: You appear to be changing the type of development assistance to Thailand. The Agriculture Account has been reduced from $13,500,000 to $1 million; the Population Account has been reduced from $3,600,000 to $2,400,000; there are no funds at all for health, where there had been an $8 million loan; and you have increased Education by over $7 million and increased the Selected Development Activities Account by almost $12 million. I find the decrease in the Agriculture Account the most interesting, since you say in your justification materials that the focal point of A.I.D.'s current development assistance strategy is "the poor farmers of northeast Thailand." I see you have planned a $1 million PVO co-financed project for FY 1985. How is this consistent with your stated emphasis?

Mr. McPherson: The shifts in funding categories in FY 1985 represent a restructuring of the AID program in Thailand. The full impact of the restructuring, however, will not be felt until FY 1986. With respect to the agriculture sector, although only $1 million in new funding is contemplated for FY 1985, ten agriculture-related projects will be continuing at that time, some of which are estimated to run through 1988 or 1989. Thus, while the amount of new funding in the agriculture account in FY 1985 is small, the thrust of A.I.D.'s current development assistance strategy through FY 1985 will continue to focus on the poor farmers in the Northeast.

The one-third reduction (from FY 1984 to 1985) in the population account represents continued interest by AID in an important program that is increasingly being supported by the Thai Government. The continuing, but reduced, funding in this category will maintain needed support in population planning but reflects sustained interest on the part of the RTG in working toward its goal of reaching a population growth of 1.5 percent by the end of 1986.

No funding is anticipated in FY 1985 in the health category largely because of a Mission decision to expand its Rural Primary Health Care project in FY 1984. The Emerging Problems of Development II project, which will begin in FY 1985, will include funding that can be applied to a number of areas including health, if the need arises.

The Education and Selected Development categories will receive significant increases beginning in FY 1985. The increase in the Education Account will support a new science and technology project. This is a new area for A.I.D. in Thailand, which is expected to be of continuing interest in the future and one which will comprise a significant portion of the Mission's portfolio. The substantial increase in the Selected Development category also represents a new emphasis for the AID program in Thailand. The bulk of this increase will support non-education related science and technological institutions under the Mission's new Science and Technology project. A smaller amount will provide the initial funding for Emerging Problems of Development. Both of these new projects will begin in FY 1985 and are expected to fund a variety of activities, some of which may be closely related to agriculture or population. The real shift to these two funding categories recognizes that Thailand is emerging rapidly as a middle-income country and that the programs which AID supports must reflect that changed status.

The $1 million in PVO funding will support Thailand's increasingly important non-governmental organizations, most of which are targeted to assist the rural poor. We believe this support is consistent with our current strategy.

SCIENCE AND TECHNOLOGY IN THAILAND

Senator Kasten: Why is it that you have planned a $10.6 million education and human resources development project under a new "science and technology" project in Thailand?

Mr. McPherson: Funding for the new science and technology project for Thailand will be provided from two separate functional accounts: Education, and Selected Development. The $10.6 million from the Education Account will help Thailand develop the scientific and technological base required for sustained growth. The funding will provide technical assistance and advanced education and training to improve planning, integration and management of national resources devoted to the acquisition and spread of scientific and technological innovation.

Senator Kasten: Why aren't these funds coming out of the Science and Technology functional Account instead of the Education Account?

Mr. McPherson: We believe the Education Account should be used to cover the education and training portions of this new project, especially since these funding requirements are estimated to be substantial over the life of the project.

Senator Kasten: You then have an SDA project of $10 million also under the new "science and technology" project. Could you explain the reasons for using SDA and Education functional Account funds for science projects?

Mr. McPherson: We are requesting the Selected Development Activities Account to fund part of the project because we believe the non-education elements of science and technology projects do not fit easily into other funding accounts. These funds will upgrade existing scientific and technological institutions, develop new ones as necessary, and strengthen public-private sector capabilities to acquire and use new technologies.

Senator Kasten: And what has happened to the emphasis on agriculture?

Mr. McPherson: The shifts in funding categories in FY 1985 begin a restructuring of the A.I.D. program in Thailand. The full impact of the restructuring, however, will not be felt until FY 1986. With respect to the agriculture sector, the emphasis in FY 1985 is maintained in agriculture, largely from prior year funding. This emphasis will change after FY 1985.

IMPACT OF REFUGEES IN THAILAND

Senator Kasten: Can you give us an update on efforts to assist Thailand with its refugees from Kampuchea and Laos?

Mr. McPherson: Since early in FY 1980, we have provided a total of $19 million in Economic Support Fund assistance to help several hundred Thai villages adversely affected by armed conflict in neighboring Kampuchea, and the huge refugee influx which followed. This money, along with Thai Government and other donor contributions, has been used to help build roads, schools, irrigation and health facilities, and to control the spread of malaria and tuberculosis in these villages. Approximately 200,000 Thai villagers in 16 provinces along Thailand's borders with Kampuchea and Laos are being assisted under this program.

Since 1975 the Royal Thai Government has provided refuge or temporary asylum to more than one million Khmer, Lao and Vietnamese refugees. This influx has had destabilizing effects in Thailand increasing the price of goods and services in the border area and adversely affecting the local Thai. In addition, many Thais residing along the border have been forced to move to more secure areas; inadequate water reserves are supporting both refugee camps and Thai communities; rural roads have been severely damaged; and outbreaks of disease, primarily malaria, spread beyond the camps in near-epidemic proportions.

While the international community provided relief for the refugees, little was done initially to help offset the effects of the refugees on Thailand's economy. The ESF grants provided since FY 1980, including a $5 million contribution this year, are being used for:

- -- village home plots;
- -- clearing and development of new farm lands;
- -- village water sources;
- -- vocational training and non-formal education;
- -- community development projects;
- -- preventive health programs; and
- -- construction/repair of village roads.

The program is active in 117 villages in seven provinces along the border with Kampuchea, plus an additional 138 villages in nine provinces along the Laotian border.

PHILIPPINES

Senator Kasten: The FY 1985 ESF program for the Philippines is to be "divided equally between program and project assistance". Why are we not using functional account funds instead of ESF if half of the funds are to be for specific projects? Does this mean that you will continue Education and Selected Development activities projects but under the ESF?

Mr. McPherson: When I use the terms project and program assistance, I am referring to procedures by which we provide assistance. This procedural distinction should not be confused with funding sources (Economic Support Funds or Development Assistance) or functional accounts.

In FY 1985 we propose to provide the Philippines with both Development Assistance and Economic Support Funds. The $39 million proposed Development Assistance will be provided through the five functional accounts. We will continue to use Development Assistance to fund projects in Education and Human Resources as well as Selected Development Activities. In addition to Development Assistance, we propose to provide $95 million in Economic Support Funds (ESF). As you know, ESF is not divided into functional accounts. We believe ESF is, however, the appropriate account from which to provide economic assistance arising from our obligations under the Amended Military Bases Agreement.

During the period FY 1980 through FY 1984, we provided the Philippine Government with $200 million of ESF as part of the Executive Branch's best efforts commitment arising from the 1979 Amended Military Bases Agreement. This $200 million was provided as project assistance for activities designed to improve socio-economic conditions of Filipinos living near the U.S. military facilities as well as for nationwide development activities such as rural energy development and construction of markets, elementary schools, and rural roads. Projects provide technical and financial assistance for addressing specific and discrete development problems.

As the ESF program more than doubles, from $200 million to

$475 million, we need to utilize more efficient and effective means to achieve the objectives of the ESF program to fulfill our obligations under the Amended Military Bases Agreement and to address basic human needs. We believe that a better programing approach is to provide a mix of project and program (or non-project) assistance. Such a mix addresses our concern for optimizing the development impact through projects and carefully selected program assistance, retains reasonable AID control over ESF implementation, and provides a mechanism for faster disbursements tailored to the Philippines balance of payments requirements and domestic budget deficit. In FY 1985, we propose to use ESF program assistance to offset a portion of the Philippine Government budget reductions by supporting local currency funding for important on-going development projects of the World Bank, Asian Development Bank, and A.I.D.

INDIA

Senator Kasten: Again with reference to the report of U.N. voting practices, I note that the largest Development Assistance recipient in the Asia Bureau, India, is on that list of countries which condemned the U.S. action in Grenada, while at the same time did not condemn the Soviet invasion of Afghanistan -- Yet you are proposing to provide $87 million of the American taxpayers' funds to that country. India has been less than helpful on a number of issues, as you well know, and perhaps that money you have slated for them might be better utilized in countries which are more friendly to the United States,

What do you think?

Will you be taking this matter up with Indian officials?

Mr. McPherson: I think our aid relationship with India is important to U.S. interests. India is the largest and most influential country in South Asia. As a critical factor to peace and stability in the region, as a leader of the non-aligned movement and as a spokesman on North-South issues, India can have a significant impact on the effectiveness of U.S. policies in the region, particularly related to Pakistan. Despite our differences on some regional and global policies, the United States has substantial interests in a growing Indian economy, already the twelth largest in the world. Our A.I.D. program is one of the most important ways we maintain a constructive relationship with India, while at the same time addressing the massive economic problems of the most populous low-income country we assist.

U.S. officials have discussed this report, as well as the substantive differences which underlie it , with Indian officials.

CENTRAL AMERICA ABSORPTIVE CAPACITY

Senator Kasten: The Kissinger Commission has recommended that the Central American Countries participate in the solution to their own economic problems. However, there are indications that these countries have reached their capacity to effectively absorb foreign assistance.

For example, project assistance which has been obligated but not spent (PIPELINE) exceeds $380 million with pipelines for Panama ($46 million), Costa Rica ($65 million) and Honduras ($130 million) being very high in relation to overall program size.

Moreover, an A.I.D. official testified in March, 1983, that assistance levels to Central America had reached or exceeded the ability of A.I.D. field staff to track the project funds.

How will A.I.D. avoid future project delays and pipeline problems?

Mr. McPherson: We believe that the Central American countries can productively absorb our proposed level of resources, given good policy directions by the Central American governments and some new approaches of our own. Our rationale is as follows:

To place our proposed economic assistance in perspective, our request for $1.12 billion in FY 1985 represents less that 5 percent of the region's GNP, and less than the $1.5 billion shortfall in export earnings from lower coffee and sugar prices and higher costs for imported oil. Relative to GNP, we have provided higher levels of aid to other parts of the world, particularly success stories like South Korea and Taiwan. It is also much smaller than the Marshall Plan, which provided $42 billion (measured in today's prices) over less than four years.

Second, we do not believe the A.I.D. pipeline in Central America is excessive, given the significant levels of U.S. assistance to these countries in the past three years. Over half of our year end 1983 pipeline of undisbursed funds of $373 million represented resources obligated in the past year, while another 20% was less than two years old. Only $72 million in assistance, or less than 20%, was obligated more than three years ago, and some of this was for projects where long lead times were foreseen in project design.

Moreover, the rate of expenditure against pipeline in 1983 was approximately 40 percent, the highest rate over the past four years. Problems will continue to arise in individual cases, but that is the nature of the development business.

While deficiencies in the implementation capacity of the Central American governments do exist, we are taking several steps to prevent such problems from limiting our impact. First, the largest part of the assistance will be in the form of balance of payments assistance and will be channeled to the private sector, rather than to government programs. Second, we will provide substantial technical assistance and training for government organizations to streamline their operations and increase efficiency. Third, over the last four years, government investments and social programs have been dramatically cut back as a result of the region's financial problems, so significant capacity for expansion is already in place.

Central America does not have the kinds of specific bottlenecks — clogged ports, shortages of trucks or storage facilities -- that have led to major blockages elesewhere. For the next several years, considerable excess capacity will exist. Over the longer term, we can make plans to address potential bottlenecks before they arise. In this longer time frame, there are abundant feasible projects ready to absorb resources.

Finally, we believe that the central factor in absorptive capacity is government policies. Policy reforms are crucial to effective use of our funds and those of host countries. The key is to avoid subsidizing inefficiency and to create opportunities and incentives for private-sector investment. In agriculture, adequate prices and access to land with secure titles will stimulate investment and production by the people who understand best how to do this -- the individual farmers. In industry, good policies mobilize individual entreprenures to make the right decisions concerning increased employment and production. In short, our experience suggests that we can build up a larger program, given the kind of commitment to economic, social and political reform that we will seek as a precondition to our assistance.

Senator Kasten: How can field staffs be expected to manage the additional assistance proposed?

Mr. McPherson: We plan a major increase of A.I.D. Mission personnel in Central America through a combination of U.S. direct hire; foreign national employees; U.S. contract persons; and foreign national contractors. For example, including recent assignments, we plan a one-third increase of U.S. direct hire staff over FY 83 levels. These additional personnel will upgrade Mission capabilities for program design, implementation, and oversight. In addition, we will double our regional audit capability.

Using A.I.D. funds, we will give special emphasis to institutional strengthening and human resource development in the initial years of the plan period, particularly in countries where we propose an increase in Development Assistance project-funding.

In this way, we will able to place greater reliance on recipient government organizations for effective management and controls. The necessity for intensive A.I.D. staff involvement in management issues will thereby be diminished.

We will also make greater use of A.I.D.-financed contractors to assist recipient government organizations with financial management, procurement, and logistics support. Over time these contractors will help upgrade the capabilities of local organizations.

A.I.D. STAFFING INCREASES

Senator Kasten: Should Congress approve the increased programs requested under the Kissinger Commission Report, it would seem that A.I.D. would need increased manpower, including perhaps increased slots from OMB. Is there anything in the proposal which provides you with more personnel and/or more slots?

Mr. McPherson: Yes. Our proposal includes increases in operating expenses of $2.5 million in the FY 1984 supplemental and $6.0 million in the FY 1985 request. It is our intention to use these funds to increase our staff in Central America by 39. However, a task force headed by Mr. Dwight Ink recently returned from Central America and is now in the process of drafting their report on the personnel needs of the expanded economic assistance program. This report may impact on our final decisions on staffing needs. We will be submitting this report to you in the near future.

The FY 1984 supplemental amount is a twenty-one percent increase over the previously planned levels of operating expenses in 1984 for the Central American countries. Our request for $6 million in FY 1985 above the operating expenses for the Central American program is a forty-four percent increase. OMB has approved these funding increases in order to enhance our administrative capacity to manage the anticipated program expansion by increased personnel and associated costs.

INSTITUTIONAL CAPACITY

Senator Kasten: How can A.I.D. keep the recipient governments from being overwhelmed by additional assistance flows?

Mr. McPherson: The principal absorptive capacity issue relates to host government policies. During the early years of the proposed program, the largest part of our assistance will be balance of payments support to promote growth by increasing Central America's capacity to import. With appropriate recipient government policies, these additional resources will lead to increased private-sector production and investment, thereby promoting long-term development. Our principal concern is to assure that our assistance will encourage and reinforce good policies. If necessary, we will withhold increases in assistance until governments undertake policy reforms.

Senator Kasten: To what extent will additional assistance skirt existing institutions to speed delivery and what will A.I.D. do to strengthen Central American institutions?

Mr. McPherson: The sequencing of our proposed assistance emphasizes economic stabilization and policy reform in the early years, combined with strengthening of government management. Recipient country Central Banks and private businesses will have major roles in economic stabilization. At the same time, one of A.I.D.'s major policies is institutional development. The National Bipartisan Commission on Central America also recommended training and technical assistance for institutions and government programs. As governmental capabilities improve and economies stabilize and grow, our assistance will shift more to government projects. We are well aware of the danger of overloading public sector capacities. Large increases in recipient government projects will not take place until the recipient government can manage them.

LABOR INTENSIVE INFRASTRUCTURE PROGRAM

Senator Kasten: The Kissinger Commission has proposed the development of large scale infrastructure -- schools, housing, roads, electrification -- using labor intensive methods.

To what extent were A.I.D. field staff consulted on the feasibility of implementing these activities?

Mr. McPherson: A.I.D. field missions were consulted a number of times as we here in Washington were preparing briefing materials requested by the National Bipartisan Commission on Central America. Papers were prepared on a variety of problems, including the region's high rate of unemployment, and the need for public infrastructure. The Commission's recommendations reflect this input from the field.

Senator Kasten: How would such a program be administered?

Mr. McPherson: There are several ways that labor intensive construction of infrastructure is managed, depending on the source of funding and type of construction involved. The design and implementation of projects reflect these factors. Housing guaranties, activities financed by local currencies from PL 480 or ESF programs, and direct A.I.D. financing of projects have different administrative requirements. In all instances estimates are made of costs, workers involved, and time required for completion, along with quantifiable targets, reporting requirements and construction supervision arrangements. Labor intensive construction activities typically might be managed by an implementation committee consisting of A.I.D. representatives and members of the appropriate host government entity, such as the Directorate General of Highways in the case of a roads project. In most cases, construction would be done by private firms under contract. In some cases, construction may be done directly by a public works ministry by force account. In projects of a broader nature in which multiple agencies are concerned, an inter-agency coordinating entity typically would be established to administer the program.

Senator Kasten: What increases are anticipated in the staffing levels of the A.I.D. missions?

Mr. McPherson: We plan a major increase of A.I.D. Mission personnel in Central America through a combination of U.S. direct hire, foreign national employees; U.S. contract persons; and foreign national contractors. For example, including recent assignments, we plan a one-third increase of U.S. direct hire staff over FY 83 levels. These additional personnel will upgrade Mission capabilities for program design, implementation, and oversight. In addition, we will double our regional audit capability.

Senator Kasten: Will jobs created by these "public works" activities be temporary and what can A.I.D. do to create sustained employment?

Mr. McPherson: Most will be only temporary, although some school and road construction jobs could last two or three years.

These efforts are part of an emergency program and are not intended to become part of the Central American economy. The answer to the employment problem lies in long-term job creation in the private sector. The Caribbean Basin Initiative along with other trade and investment incentives, renewal of the Central American Common Market, more agribusiness, and new exports all offer sustained employment and are major elements within our proposed program.

EL SALVADOR: CENTRAL BANK AND A.I.D. FUNDS

Senator Kasten: One of the studies which has been alluded to in the press and for which you have taken a great deal of criticism is the Arthur Young Report on the Central Bank of El Salvador. I asked the Committee Staff to look at that report, and they report to me that the report as compared to press reports are miles apart, and, in fact, allegations of corruption and mismanagement are greatly overstated in the media. Part of this problem is your fault because you classified the report. From the reports staff have given to me, I do not think classification of the report is justified.

I am, therefore, going to suggest to you that you declassify the report, and, if necessary, you can ask the Government of El Salvador if they object to that--because I do not think they do.

Mr. McPherson: I fully agree with the statement of your staff who reported to you that the Arthur Young Report, "as compared to press reports are miles apart, and in fact allegations of corruption and mismanagement are greatly overstated in the media."

We classified the Arthur Young Report to protect United States and Salvadoran foreign policy interests. This Report, which was completed in June 1983 and immediately subjected to tight administrative control by the Salvadoran Central Bank and A.I.D., contains complex and sensitive analysis of internal bank procedures. The Report also raised issues such as exchange rate questions that the Central Bank of El Salvador never anticipated would be made available to the general public when they commissioned the study.

Furthermore, the recent progress towards improved foreign exchange management and financial stabilization in El Salvador is due in large part to the relationship of professional respect and trust developed between A.I.D. and the Central Reserve Bank. In requesting a study of its organization and procedures by Arthur Yound and Co., the Central Bank did so with the assumption that any conclusions and recommedations would be held in confidence by the U.S. Government and not released to the general public. We are trying to maintain that basis of trust.

For the reasons stated above, A.I.D. believes the Arthur Young Report should remain classified, thereby, protecting the privileged nature of its contents.

CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

Senator Kasten: One of the key elements of the Kissinger legislation necessary for the support of the AFL-CIO is the establishment of CADO. It had been my understanding that the Department of State and the White House had come to a solid agreement with the AFL-CIO on this matter, but I have been subsequently informed that you have some problems with CADO and are trying to reopen negotiations. I simply want to say that the AFL-CIO support for this legislation is too important and I would suggest that the agreement that has already been made be left as it is.

Mr. McPherson: Senator, the White House, Department of State, A.I.D. and AIFLD have had a couple of meetings to explore some general matters regarding the objectives, structure and operating guidelines of CADO. These discussions flowed from but did not alter the basic understanding on essentials that had previously been established.

ADDITIONAL INSPECTOR GENERAL OVERSIGHT OF THE CENTRAL AMERICA A.I.D. PROGRAM

Senator Kasten: I want you to know that I am making a suggestion to the President that he participate in meeting the mismanagement and corruption charges head-on by taking the offensive and my specific recommendation to him is that he detail additional auditors from other Government Agencies on a nonreimbursable basis to A.I.D.'s Inspector General so that all of these matters can be thoroughly looked at and examined. I make this recommendation because those of us who support the policy in Central America are just as interested in making sure there is no mismanagement and corruption and to us, as I have stated to you many times, audits and the like are necessary management tools that should be looked upon as very necessary in your work and not something that hinders it.

Do you support this proposal I am making to the President?

Mr. McPherson: Yes, I do. Such an approach would offer us a relatively quick way to strengthen our audit oversight of A.I.D. programs in Central America. We are in fact in discussions now with OMB on how to put into place such a temporary reinforcement of our IG resources.

Senator Kasten: Is there anything in the proposal which will provide the Inspector General of A.I.D. with more personnel for his operations in order to adequately cover the increased programs which would go to Central America?

Mr. McPherson: No. There is nothing in the proposal now which would provide for any permanent increase in IG personnel.

EMERGENCY STABILIZATION PROGRAM

Senator Kasten: The Kissinger Commission recommended, and the Administration has subsequently proposed, an emergency stabilization program which would include the provision of general balance of payments support. Will the provision of large amounts of balance of payments support reduce the recipients' sense of urgency in taking necessary (though politically difficult) action to reform their policies which have contributed to economic decline?

Mr. McPherson: We have made it clear to the Central American countries that our balance-of-payments assistance will continue to be conditioned on policy reforms to consolidate economic stabilization programs and to undertake the structural changes necessary for strong and sustained economic growth. Maintenance of linkages with IMF programs in most cases will further reinforce this emphasis on good policies. Further, we expect the establishment of a Central American Development Organization (CADO) to provide further independent impetus for linkage of aid to good performance.

Actually, the impact of our assistance should be seen in a much more positive light. Far from discouraging reforms, we believe that our aid encourages them, in several ways. First, the high level of aid provides the temporary resources often necessary to allow governments to take difficult steps that have immediate costs but longer-term benefits. Second, we have been able to develop a collaborative style with major recipients that has permitted dialogues on policy alternatives with governments that have led to improvements in performance.

LENGTH OF BALANCE OF PAYMENTS SUPPORT

Senator Kasten: How long must the U.S. provide balance of payments support? When will Central American countries be able to increase their exports so that they earn needed foreign exchange?

Mr. McPherson: Much of the economic decline of the Central American region has been caused by sharply lower prices for their commodity exports. We have no crystal ball to tell us when and how fast commodity export prices might rise, but the best available projections are not optimistic about price trends over the rest of the decade for the traditional exports of the Central American countries. The structural adjustment measures we are supporting, together with the trade benefits provided under the Caribbean Basin Economic Recovery Act, have the potential to stimulate a rapid growth in non-traditional exports, both agricultural and industrial. But even if this potential is realized, these exports are starting from a relatively low base and their growth would not make a significant contribution to the balance of payments until late in the decade. Existing debt burdens and political uncertainties, meanwhile, limit the Central American countries' access to commercial loans and credits.

We therefore anticipate a need for continued high levels of balance-of-payments assistance for two to three more years, after which time increased exports and increasing private foreign capital inflows should be able to substitute for our aid. There is likely to be some variation among the countries in the time needed, however, with Guatemala, Honduras and Belize likely to adjust most quickly, while Costa Rica -- with its massive external debt -- requiring the longest adjustment period.

ECONOMIC POLICY REFORMS

Senator Kasten: The Administration plans to emphasize major recipient policy changes and management improvements during the early years of the program. What success has A.I.D. had in leveraging reforms of economic policies to date in the region, and can implementation of reforms be accelerated?

Mr. McPherson: Considerable progress has been made in leveraging economic policy reforms through our policy dialogue. Since these reforms always hurt some interest groups, and may even require temporary belt-tightening for everyone, considerable political constraints to the adoption of reform measures must be overcome. Time and patience is needed in the policy dialogue process in order to establish trust and to show clearly why the failure to undertake policy reforms may produce even more undersirable results than the temporary austerity associated with implementating them.

One example of how our policy dialogue has been fruitful is the case of Costa Rica, which made considerable progress in 1983 under an IMF-supported stabilization program reducing its budget deficit, bringing the inflation rate back down to single digits, converting a short-term private capital outflow into an inflow, virtually unifying the foreign exchange market and stabilizing the exchange rate, and reaching debt rescheduling agreements with its public and private creditors. Costa Rica's GDP, after falling by 9.1% in 1982, rose by 0.8% in 1983.

A second example is El Salvador. El Salvador has moved some export and import transactions to the parallel foreign exchange market and has taken other steps to improve the allocation of scarce foreign exchange. The long decline in its GDP was halted in 1983.

In Panama, where we have not had ESF assistance thus far, our policy dialogue has encouraged the policy reforms recently adopted by the Government of Panama and being supported now by both an IMF arrangement and a World Bank Structural Adjustment Loan. Throughout Central America, countries have increasingly recognized the importance of stimulating exports and have adopted a variety of export promotion measures, a number of them supported by A.I.D. technical or financial assistance.

SPREAD OF BENEFITS

Senator Kasten: What efforts will be made to spread the benefits of this type of assistance throughout the recipient country society?

Mr. McPherson: Our assistance can promote widespread improvements in two ways. First, it can promote an economic recovery that will provide productive jobs and incomes to poor families. This is the most important means in the near term for increasing welfare. An export-oriented strategy, based on the kinds of labor-intensive industries and processes that an appropriate set of economic policies will encourage, offers the best hope for stimulating this kind of job creation.

The second element needed to spread the benefits of growth is direct government action to extend access to the means for healthier and more productive lives -- improved education, access to modern agricultural technology and credit, and opportunities for better health -- to all sectors of society. As economic growth resumes and accelerates, more tax revenues will be generated to permit an expansion of education and health programs. Our policy dialogues seek to assure that such expansions are in fact carried out. In addition, we plan to increase our own assistance to such programs as the absorptive capacity to implement them improves.

Meanwhile, our programs in health and education are emphasizing management improvements and other cost-effective measures to enable limited resources to do more. These A.I.D. programs, as well as P.L. 480 Title II programs, are focused on the problems of particularly disadvantaged groups. Similarly, our agricultural programs are designed to improve production and marketing opportunities for small farmers. In the face of severe foreign exchange constraints, PL 480 Title I programs, as well as CCC credits, have been increased to help maintain food consumption levels. In summary, we are very conscious of the importance of spreading the benefits of our assistance widely, and our programs are designed to do this in both the short run and the long run.

ACCEPTANCE OF ECONOMIC POLICIES

Senator Kasten: Past economic policy changes in Egypt, and more recently in Morocco and Tunisia, have been adversely received by the general public. How does A.I.D. plan to prevent this from happening in Central America?

Mr. McPherson: Austerity measures are never popular. But their acceptance can be enhanced if a government is able to present them to the public in the context of a clear plan not just for stabilizing the economy but also for bringing about a sustained economic recovery. We believe that our policy dialogue with government officials enables them to better understand the nature of their economic problems and then to articulate to their publics the reasons why certain policy changes are being made. Policy reforms also stand more of a chance to be accepted if a government can show that it is aware of the effects of its policy changes on low-income groups, and can take steps to mitigate these effects -- as we are trying to help them do. Another thing we can do is to foster more public discussion and debate on a country's economic problems. This could be an important role for USIA, whose activities are scheduled to increase significantly in implementing the recommendations of the National Bipartisan Commission on Central America.

POLICY CHANGES

Senator Kasten: What, and how realistic, are the policy changes that must initially be made to insure the success of the long-range program in Central America?

Mr. McPherson: A process of sustained, long-run economic growth cannot get underway in an environment of economic instability. One of the most important requirements for achieving this stability is a reduction in public sector budget deficits through expenditure cuts, tax increases where appropriate, and an elimination or substantial reduction in subsidies to public enterprises through such measures as increases in utility charges to levels that cover costs. Realistic exchange rates are also needed to correct balance-of-payments disequilibria by stimulating exports and ending artificial incentives for imports. In some countries, there is also a need for interest rate reforms to stimulate savings, to keep these savings from being sent abroad where interest rates are higher, and to encourage a more efficient allocation of credit by eliminating interest-rate subsidies for less productive activities. Progress has been made in these areas throughout Central America, but some countries have reacted slower than others. We believe that our policy dialogue can help countries speedup the process of policy reform, especially by making clear the consequences of not undertaking such reforms.

EXPERIENCE OF IMF

Senator Kasten: What has been the experience of the International Monetary Fund in its economic stabilizaton programs for Central America?

Have recipient countries compiled with IMF requirements?

How will A.I.D. use IMF experience in tailoring their balance of payments support to country situations?

Mr. McPherson: The Central American countries' experience with IMF-supported stabilization programs has been mixed. The Costa Rican program, initiated in 1983, has achieved some impressive results. The 1982-83 program in El Salvador hit some snags but eventually was completed. Panama and Guatemala are in compliance with their current agreements. The experience in Honduras has been less satisfactory, particularly with respect to achievement of fiscal targets. Honduras fell out of compliance with its 1983 program, and progress toward the adoption of a new program has been slow. A.I.D. strongly belives that a new IMF-supported stabilization program is needed in Honduras, and we have conditioned our ESF assistance on progress toward the adoption of such a program. Similarly, disbursements of ESF assistance in other countries have been linked to compliance with the terms of ceilings and targets established under IMF-supported programs.

ESF FUNDED CASH TRANSFERS IN CENTRAL AMERICA

Senator Kasten: Has this assistance increased imports of U.S. goods and services to those countries receiving the ESF funds? What sectors of the U.S. economy have benefitted?

Mr. McPherson: ESF assistance to date has not resulted in increases in imports from the United States; indeed, total imports by the three Central American countries receiving ESF support have declined as a result of a general economic recession in the region. However, ESF assistance has helped stabilize the declining balance of payments situation in each of the recipient countries and enabled them to continue importing the critical U.S. imports needed to maintain production and employment levels. Consequently, U.S. imports as a percentage of total imports have been steady or have increased in each country.

In supporting those import levels, the ESF has also served to maintain traditional markets for U.S. exporters to the area, which might well have been lost in the absence of the balance of payments support. Major sectors of the U.S. economy which have benefitted from this continued trade have been industries dealing in agricultural supplies, chemicals and pharmaceuticals. In the longer run, continued assistance will strengthen the weakened Central American economies and should increase the demand for U.S. goods.

We are enclosing two tables showing trends in imports from the United States to Central America in recent years. The first table shows imports from the U.S. as a percentage of total imports from 1978 to 1982 in Costa Rica, El Salvador and Honduras. The second table shows trends in the compositions of total imports from the U.S. by those countries in nine import categories. The tables draw on two sources which differ on some statistics; nevertheless, they are useful for analyzing trends.

Senator Kasten: What central measures does A.I.D. use to assure that its funds are not sent outside the recipient country through illegal foreign exchange transactions?

Mr. McPherson: A vital part of our ESF assistance program to Central America has been to help improve general foreign exchange control and allocation systems of each of the participating countries to stem capital flight, and to establish specific program-oriented monitoring systems which enable A.I.D. to determine that our resources are being used as intended. We maintain close collaboration with host country counterparts in the respective central banks at both the policy and technical levels. We attempt to ensure that all aspects of the foreign exchange flow systems have been examined. If problems are identified, efforts are made to remedy or improve upon the situation.

On the policy side, A.I.D. has followed a general strategy throughout Central America of supporting IMF programs or policies designed to ease speculative pressures on local currencies and to remove incentives to send dollars outside of the region. The fact that the street market rates for dollars in the region are reasonably close to the relevant official exchange rates is an indication of the success of our strategy.

Moreover, in Costa Rica, the devaluation plus the increase in interest rates resulted in a net capital inflow of approximately $140 million in 1983. This illustrates the importance of sound economic policies in managing foreign exchange resources.

Specific technical measures that are being taken to assure that funds are not being sent outside the recipient country through illegal foreign exchange transactions include the following:

El Salvador

A.I.D. has established a document control system within the Salvadoran Central Bank which provides a record of all import transactions attributed to the ESF program. Each of the transactions is reviewed for eligibility under the program and approved before the Central Bank approves the importer's application for foreign exchange. Thereafter, a file is maintained over the life of the transaction, listing amounts of foreign exchange requested and the amounts eventually used. A separate auditing entity outside of the Bank keeps track of the transactions and supplies A.I.D. with an explanation of all discrepancies between requested and used amounts.

As part of the ESF program in El Salvador, A.I.D. has assisted the Central Bank in establishing a price checking unit which reviews and verifies, on a sample basis, the values of goods which importers wish to bring into the country. The price checking process serves to reduce the chances of over-invoicing the values of imported goods and the consequent flight of capital. The Central Bank has recently increased the number of people working in the price checking unit and it is now under the direct supervision of the Bank's top management. At present, A.I.D. is requesting proposals for technical assistance to the price checking unit to enable it to increase the number of transactions it reviews and to check prices more rapidly.

Honduras

The Honduran Central Bank, with A.I.D. assistance, has developed a foreign exchange allocation mechanism used to attribute the proceeds from the ESF program. The Central Bank provides A.I.D. with listings of import categories, importers, and FOB value of imports of all transactions eligible under the program. Each listing is cross referenced with import permits and foreign exchange sale authorizations on file at the Central Bank for A.I.D. to inspect and audit. Inconsistent documentation is returned for clarification and further investigation.

At present, the Central Bank does not have a price-checking unit. The Bank does initiate sample spot-checks to look for irregularities in the valuation of imports. The Mission is revieiwng various strategies for strengthening and systematizing the price-checking capability in the Central Bank to avoid the potential for capital flight.

Costa Rica

As in Honduras, A.I.D. required the Central Bank to submit periodic reports listing import activities attributable to the ESF program. These listing provide data showing the amounts of foreign exchange requested, types of goods attributed to the program, their values, and dates of entry into the country. The listings make comparisons of actual invoices to amounts requested possible, and constitute a partial check on possible over-invoicing. In a further effort to deal with the problem of over-invoicing, the Central Bank also carries out spot checks on the values of invoices as is done in Honduras and El Salvador.

TABLE I
CENTRAL AMERICAN IMPORTS FROM U.S.
VS. TOTAL IMPORTS
(Current $'s in millions)

	1979	1980	1981	1982
COSTA RICA				
Total Imports	1397.6	1470.8	1208.9	870.0
From USA Only	425.2	503.8	402.7	331.1
USA/Total x %	30.4%	34.3%	33.3%	38.1%
EL SALVADOR				
Total Imports	1039.5	971.4	981.4	929.0
From USA Only	295.0	194.2	249.8	320.9
USA/Total x %	28.4%	20.0%	25.5%	34.5%
HONDURAS				
Total Imports	825.7	1005.1	867.3	710.8
From USA Only	358.1	426.0	384.2	302.1
USA/Total x %	43.4%	42.4%	44.3%	42.5%
TOTAL IMPORTS-				
Costa Rica, El Salvado and Honduras	3262.8	3447.3	3057.6	2509.8
From USA Only	1078.3	1124.0	1036.7	954.1
USA/Total x %	33.0%	32.6%	33.9%	38.0%

Source: Direction of Trade, IMF
(Values are FOB)

TABLE II
IMPORTS FROM U.S. BY CATEGORY PERCENTAGE

Country: COSTA RICA

Category	1979		1980		1981		1982	
0	35.2	8.6%	55.0	11.2%	39.2	10.6%	37.0	11.3%
1	0.2	.0%	0.2	.0%	0.1	.0%	0.1	.0%
2	10.6	2.6%	11.2	2.3%	9.9	2.7%	10.8	3.3%
3	5.1	1.2%	5.9	1.2%	4.7	1.3%	9.1	2.8%
4	2.4	0.6%	7.5	1.5%	4.2	1.1%	3.5	1.1%
5	69.8	17.0%	86.9	17.6%	76.2	20.6%	78.4	24.0%
6	80.7	19.7%	99.0	20.1%	77.2	20.8%	64.7	19.8%
7	147.8	36.1%	159.3	32.3%	94.3	25.5%	67.3	20.6%
8	49.4	12.1%	57.5	11.7%	56.2	15.2%	51.4	15.7%
9	8.3	2.0%	10.6	2.1%	8.4	2.3%	4.7	1.4%
TOTAL	409.5	100.0%	493.1	100.0%	370.4	100.0%	327.0	100.0%

Country: EL SALVADOR

Category	1979		1980		1981		1982	
0	32.6	9.4%	35.8	13.4%	49.7	16.4%	34.1	12.9
1	0.2	0.1%	0.3	0.1%	0.2	0.1%	0.2	0.1%
2	11.8	3.4%	13.6	5.1%	16.9	5.6%	12.5	4.7%
3	6.2	1.8%	5.9	2.2%	5.1	1.7%	3.3	1.2%
4	15.8	4.6%	13.1	4.9%	21.5	7.1%	19.3	7.3%
5	56.5	16.4%	44.3	16.6%	50.7	16.8%	37.3	14.1%
6	52.3	15.1%	40.8	15.3%	43.2	14.3%	36.5	13.8%
7	132.2	38.3%	85.7	32.1%	88.4	29.3%	94.4	35.7%
8	31.7	9.2%	22.7	8.5%	21.7	7.2%	23.2	8.8%
9	6.0	1.7%	4.4	1.7%	4.8	1.6%	3.5	1.3%
TOTAL	345.3	100.0%	266.6	100.0%	302.2	100.0%	264.3	100.0%

TABLE II
IMPORTS FROM U.S. BY CATEGORY PERCENTAGE

Country: HONDURAS

Category	1979		1980		1981		1982	
0	25.2	7.9%	41.0	11.1%	35.9	10.6%	28.0	10.7%
1	0.5	0.2%	1.0	0.3%	0.9	0.3%	1.1	0.4%
2	4.1	1.3%	3.9	1.1%	3.0	0.9%	4.1	1.6%
3	4.9	1.5%	4.9	1.3%	5.0	1.5%	9.4	3.6%
4	5.1	1.6%	8.2	2.2%	5.4	1.6%	3.8	1.5%
5	56.3	17.7%	60.7	16.4%	57.6	17.1%	51.4	19.7%
6	75.4	23.7%	83.7	22.7%	80.1	23.7%	62.8	24.0%
7	107.3	33.7%	118.5	32.1%	98.7	29.2%	50.0	22.6%
8	30.6	9.6%	37.6	10.2%	40.7	12.0%	34.3	13.1%
9	8.6	2.7%	9.8	2.7%	10.5	3.1%	7.6	2.9%
TOTAL	318.0	100.0%	369.3	100.0%	337.8	100.0%	261.5	100.0%

Source = U.S. Department of Commerce, FT 455/Annual U.S. Imports

Category Legion

0	Food and Animals
1	Beverages and Tobacco
2	Crude Materials - Inedible
3	Mineral Fuels
4	Oils and Fats
5	Chemicals
6	Manufactured Goods
7	Machinery and Transportation Equipment
8	Miscellaneous Manufactured Articles
9	Items Not Classified

CAPITAL FLIGHT

Senator Kasten: How much capital is leaving Central America through capital flight and debt service payments?

And how serious is the problem of capital flight?

Mr. McPherson: To attempt to measure capital flight precisely is to pursue a will-o-the-wisp. By their very nature, these short-term capital outflows are difficult to identify, let alone measure. It is also hard to separate safety-motivated transfers due to fear of revolution from economically-motivated transfers that are temporary in the sense that they are caused by interest rate disparities or expectations of devaluation, and will be reversed when these economic distortions are removed. There is nevertheless broad agreement that capital flight was a serious problem in Central America, several few years ago. A reasonable guess would be that $1.5 to $2 billion in capital left. Available evidence indicates that capital flight has declined sharply, and it is a much less serious problem today. Progress toward a solution to Central America's political difficulties should further reduce, and then eliminate, the flight of capital abroad.

Servicing the external debt of the Central American countries absorbed approximately $2 billion in 1982. Costa Rica and Panama had the largest debt service, of about $650 million each in interest and amortization. (Panama's figure includes both internal and external debt payments, since its use of the dollar as the national currency precludes any separation of the two.)

EDB

Senator Kasten: It appears that we are at odds with ourselves again with trying to promote trade between the U.S. and Latin America while also trying to eradicate EDB. The Washington Post had an article on February 2nd that reported that the Environmental Protection Agency and the State Department were attempting to come to some agreement to let our trading partners (and potential trading partners) know our intentions with regard to the EDB situation. Unfortunately, it appears that we have helped finance the erection of fumigation chambers for food products that use EDB.

Is A.I.D. working to find some other low cost fumigant for use by these nations?

Mr. McPherson: Last month A.I.D. completed a preliminary study on what options might exist to using Ethylene Dibromide (EDB). This was done concurrently with a fact finding survey to determine the actual impact of the then proposed EPA action. Construction on the fumigation chambers you mentioned has been temporarily halted until a workable alternative is identified.

We are now following through by rapidly developing a small project that will provide necessary research on EDB residue levels on papaya and mangoes in order to address immediate losses due to the pending interm tolerance levels. Arrangements for shipping and testing samples have already been made.

Another more substantial part of this project will examine alternative fumigants (which could use EDB fumigation plants with minor modifications), vapor heat, hot water dips and cold treatments. All these treatments hold promise but must be investigated to determine the one that is best. The feasibility of cesium irradiation will be examined also, however we realize this may not be a viable solution within the next year or two as it is as yet not approved by the FDA and an irradiation plant would take a long time to license and construct.

The last part of the project would be to provide the necessary research to have some Caribbean countries certified to be fruit-fly free. We have reason to believe countries such as Dominica, St. Vincent and Grenada may in fact be free of economically damaging fruit fly species and with proof to APHIS could be granted the priviledge to export tropical fruits to the U.S. without treatments.

NICARAGUA

Senator Kasten: In your Congressional Presentation document for Latin America and the Caribbean, you show FY 1984 expenditures for Nicaragua at $5,375,000. It was my understanding that the funds in the pipeline for Nicaragua were not being expended at all. Yet, you show expenditures for agriculture, education and the Economic Support fund.

Are funds being expended in FY 1984 for Nicaragua? How? Are these funds going through PVOs?

Mr. McPherson: Even though the A.I.D. program is phasing out in Nicaragua, some expenditure is continuing from the pipeline of a few projects approved before the cut-off of U.S. assistance to Nicaragua. These expenditures are for development activities of private sector organizations in Nicaragua. We estimate total expenditures of about $600,000 for these activities in FY 1984.

The $5,375,000 expenditure level shown on page 157 of the FY 1985 Congressional Presentation is in error. That figure includes the pipeline under the FY 1982 Nicaragua Recovery Program III which remains blocked by the GRN. The $4,199,000 pipeline in the Nicaragua Rural Recovery III is earmarked for Nicaraguan private sector organizations. We have not deobligated the blocked pipeline under that project on the outside chance that the GRN might reconsider its position and permit this assistance to proceed.

Senator Kasten: If funds are going to Nicaragua in FY 1984, does that mean you anticipate on-going programs in FY 1985?

Mr. McPherson: No new funds will be obligated for Nicaragua in FY 1984 or FY 1985. As noted above, we estimate total expenditures of A.I.D. funds by Nicaraguan private organizations of $600,000 in FY 1984. A small amount of funds may remain for expenditure in FY 1985.

Senator Kasten: If you look at Appendix II of our FY 1984 hearings, you show under "Overseas Missions and other Offices" three U.S. national and 20 foreign nationals in Nicaragua in FY 1984. However, you also show $300,000 in P.L. 480 assistance, and zero under the A.I.D. program.

Obviously, this is inconsistent with your Congressional Presentation document. Can you explain this discrepancy?

Mr. McPherson: The statements about the Nicaragua program in Appendix II were correct. At the beginning of FY 1984, our A.I.D. Mission had three American employees and 20 foreign nationals. We are in the process of phasing-out our Mission and have reduced Mission staff to one American employee and 10 foreign nationals. This staff is administering the implementation of residual activities and the orderly close-out of our program. The proposed A.I.D. program for FY 1984 remains zero; no new obligations are planned this year.

The $300,000 in P.L. 480 represented commitments to the U.N. World Food Programme made prior to the cut-off of U.S. assistance to Nicaragua. Subsequently, consistent with our phase-out plans, we decided not to allocate Title II resources for Nicaragua in FY 1984.

EASTERN CARIBBEAN FINANCIAL MANAGEMENT CAPABILITIES

Senator Kasten: The islands of the Eastern Caribbean have limited financial management capability. How do such weaknesses affect the A.I.D. assistance strategy to the region?

Mr. McPherson: Weaknesses in financial management capability do hamstring public and private sector development in the small island nations of the Eastern Caribbean. Since this is a shared problem, A.I.D. addresses it through regional institutions that are able to provide technical and financial assistance in a number of fields, as well as prudently manage scarce development resources. The most significant of such institutions is the Caribbean Development Bank (CDB), which A.I.D supports to manage inter alia community development and private sector infrastructure projects throughout the region. A new private sector facility, Caribbean Financial Services Corporation (CFSC), with A.I.D. support, will use proper financial management criteria in assessing borrower eligibility. In addition, A.I.D. supports the Barbados Institute of Management and Productivity (BIMAP) and the Caribbean Association of Industry and Commerce (CAIC). Both of these institutions provide assistance to the private sector throughout the region to improve financial planning and management. On another level, and in addition to our own efforts, the International Monetary Fund (IMF) has assigned an officer to help improve management of the Eastern Caribbean Central Bank, in order to improve its fiscal management.

SYRIA PROGRAM DEOBLIGATIONS

Senator Kasten: With regard to Syria -- have all of the funds been deobligated?

Mr. McPherson: Not yet, but since the November, 1983 termination of the A.I.D. program, we have deobligated over $115 million.

Senator Kasten: How much remains in the pipeline?

Mr. McPherson: There is an unliquidated balance of about $53 million. We plan additional deobligations of $3 million during FY 1984. The remaining $50 million will be retained to cover contractor claims and to complete residual training programs of Syrian students in the United States, as called for in last November's legislation.

OFF THE SHELF PROCUREMENT

Senator Kasten: As you will recall, I wrote to you on February 20th regarding the A.I.D. Inspector General's report concerning U.S. economic aid in Egypt being used to pay customs duties on imported goods and materials purchased off the shelf within Egypt for use in AID projects in that country.

Can you provide the Subcommittee with an update on the corrective actions you have taken to change this Agency policy?

Mr. McPherson: I have asked the Agency's Procurement Policy Advisory Panel to review the existing policy and recommend any corrective actions which should be taken. The Panel is scheduled to meet to consider this question on March 22. I will, of course, advise you of the results of the initial review.

DEOBLIGATIONS/REOBLIGATIONS

Senator Kasten: Can you give us an overview of how the deob/reob authority is being used in the current fiscal year?

Mr. McPherson: Having deobligation/reobligation authority in both late FY 1983 and in FY 1984 has been a valuable management tool for the Agency. This authority has allowed us to clear our programs of those projects which are poor performers or whose purpose no longer coincides with Agency priorities. At the same time, reobligation authority has been used to expand or strengthen program areas which address Agency priorities.

In FY 1984 we have deobligated some $159 million, primarily from the Syria program, although deobligations have also taken place in Nicaragua and several other countries. Of this amount, to date we are planning to reobligate some $62 million in support of Andean disaster relief (as well as an additional $18 million carried over from FY 1983 deobligations), $15 million in Grenada, and $10 million in support of Italian earthquake relief. The balance is, as of yet, unallocated and unprogrammed.

In addition, we estimate that approximately $29.5 million in addditional country-specific deobligations will take place in FY 1984; $15 million from the Egypt program and $14.5 million from other countries. These funds will all be reobligated in the country of deobligations.

Mr. Kasten: How much of the Egypt pipeline has been deobligated? How much reobligated?

Mr. McPherson: The Government of Egypt and A.I.D. deobligated $103.2 million from the pipeline in the Fiscal Year 1983. A.I.D. forwarded an Advice of Program Change to Congress on November 17, 1983 for the purpose of reobligating these funds as a cash transfer. Three committees objected to this plan. The Government of Egypt has requested us to advise Congress that $1.055 million of the deobligated funds will be utilized under the Commodity Import Program, rather than as a cash transfer. We agreed with this request and submitted the appropriate Advice of Program Change on March 12, 1984. We expect this first reobligation of funds to occur on March 27, 1984.

Senator Kasten: What other funds have been reobligated?

Mr. McPherson: Reobligations to date include $13 million in Ecuador, $17 million in Bolivia, and approximately $32 million in Peru in support of Andean Disaster relief: $800,000 previously deobligated in the Botswana program has also been reobligated. Reobligations planned in the near future include almost $7 million in Grenada, $300,000 in the Philippines, and an additional $10 million in Bolivia for disaster relief. All A.I.D. missions and bureaus have been advised that reobligation actions should be completed prior to the end of FY 1984.

EGYPTIAN ECONOMIC REFORMS

Senator Kasten: I know that you have been personally involved in pushing the Egyptian Government to make some economic reforms, some of those reforms, by the way, I agree with. I am wondering, however, given the recent Tunisian and Moroccan experience whether we should not be very careful about the types of pressure we bring to bear on governments for reforms that could well cause some havoc in that society.

How do you react to this?

Mr. McPherson: I have had a number of discussions with Egyptian leaders about economic reforms that we, as well as the IMF and the World Bank, believe are important to Egypt's economic growth prospects. Overall, the Egyptians and we do not differ on the need for and nature of the reforms. We do however differ on the pace and timing. The recent riots in Morocco and Tunisia certainly highlight the need for donors, such as ourselves, to be sensitive to the political constraints facing Egyptian decision makers and to be realistic in our expectations of change.

ADMINISTRATION'S COMMITMENT TO WATER AND SANITATION

Senator Kasten: Could you please indicate what AID is doing to ensure continuation of funding for the WASH contract through the end of the U. N. Water Decade?

Mr. McPherson: A.I.D. has developed a new follow-on project, Water and Sanitation for Health II (WASH II), to continue important services in this area through FY 1989. A Congressional Notification is being submitted.

Senator Kasten: What is AID doing to ensure that there is no hiatus in service under the current WASH contract which expires on May 31, 1984?

Mr. McPherson: AID is negotiating with the WASH contractor, Camp, Dresser and McKee, Inc. (CDM) of Boston for an extension of the current WASH contract to ensure continuity of service until our new follow-on project, WASH II, is contracted. We expect that will be toward the end of this fiscal year.

A.I.D./PEACE CORPS POLICY GUIDANCE

Senator Kasten: To guide and foster more coherent assistance projects and programs, A.I.D. has developed a series of policy papers and policy determinations. Has A.I.D. developed any policy guidance for Peace Corps participation? If not, would you favor the mutual development and issuance of such guidance, coupled with the identification of Peace Corps/A.I.D. development objectives in individual country strategy statements?

Mr. McPherson: A.I.D. has developed general guidance on A.I.D./Peace Corps collaboration. These guidelines encourage our overseas staff in the 45 countries in which both agencies operate to join their resources in appropriate circumstances to meet the basic human needs of the poor in the developing world.

We encourage country directors from both agencies to consult early in the planning stages of new programs so that the appropriate input from the other agency is identified and coordination begins at the outset. We also encourage A.I.D. mission directors to consider Peace Corps involvement both in the bilateral program and in the use of PL 480 resources.

A.I.D. and Peace Corps are interested in pursuing even broader collaboration in the area of strategy and planning. We are currently considering establishing a joint Coordinating Council which would provide a clearer statement of our joint regional and sectoral objectives and a framework for identifying and pursuing areas in which both agencies have a strong interest.

REFUGEE POLICY

Senator Kasten: A Senior Interagency Group for Refugee Policy was created in 1983 to consolidate and improve refugee policymaking. A.I.D. was to be one of the participating agencies. What has been A.I.D.'s involvement in this group?

Mr. McPherson: The Senior Interagency Group meets as needed for resolution of specific issues affecting refugees. The first and only meeting to date was held September 1, 1983 to discuss: (1) the Administration's recommendations to Congress for FY 1984 refugee admissions to the U.S.; (2) a progress report on the Interagency Working Group on Central American Refugees; and, (3) admission to the U.S. of Salvadorean nationals released under the GOES amnesty program. A.I.D. provides a representative to this group.

Senator Kasten: Has this group improved policy making in the refugee area?

Mr. McPherson: Frankly, several other interagency working groups have been more active in resolving refugee policy and operational issues. These include: (1) the Working Group on Humanitarian Assistance to Central America and its Sub-Group on Displaced Persons, which meets weekly; and, (2) the Working Group on the ICARA II Conference, which meets as required. Two meetings of this working group have been held to date. The group will be more active as the date of the conference (July) approaches. A.I.D. sends representatives to both these groups.

EFFECT OF SPECIAL INITIATIVES ON THE A.I.D. PROGRAM

Senator Kasten: Special purpose foreign assistance programs, such as the Caribbean Basin Initiative, the Central America Development Organization proposed by the Kissinger Commission, and the Economic Policy Initiative, are becoming a more frequent approach to providing foreign assistance. How have, or how will, these special programs affect the more traditional ongoing U.S. foreign assistance program?

Mr. McPherson: These special initiatives should have no negative effect on the "traditional" ongoing U.S. assistance programs. In fact, these initiatives have been developed in response to what we perceive as crisis conditions in each region, requiring additional assistance resources and a more focused development effort. As such, these initiatives, if anything, should have a positive effect on our underlying assistance program, helping address the age-old problems of development in new and innovative ways with greater resources.

INTEGRATION OF MILITARY AND DEVELOPMENT PROGRAMS

Senator Kasten: Does A.I.D. see any advantages to administering the military and development assistance programs in a more integrated manner, as suggested in the Commission on Security and Economic Assistance report?

Mr. McPherson: While the Administration will not seek the establishment of a Mutual Development and Security Administration, we are undertaking a study of ways in which to meet the Commission's aims of better integration of assistance programs and presenting a unified voice to Congress. It should be noted, though, that A.I.D. and the State Department already work closely together to develop a fully-integrated foreign assistance budget.

CARLUCCI COMMISSION REPORT

Senator Kasten: As you know, I was an ex officio member of the Commission on Security and Economic Assistance. That Commission's report made a number of recommendations designed to improve upon the effectiveness of U.S. foreign aid programs, the most significant being the abolition of A.I.D. and the creation of a new agency, the Mutual Development and Security Administration. Can you give us an assessment of the report, and what actions you have taken or will take in response to the report?

Mr. McPherson: The Administration is very pleased with the work done by the Carlucci Commission and with its thoughtful and insightful recommendations. The Commission's report explicitly recognizes that "the instrumentalities of foreign assistance are potent and essential tools that advance our interests" and that "they make an indispensable contribution to achieving foreign policy objectives".

The Administration supports, and the Secretary of State has accepted, thirteen of the recommendations. These include, among others: continued support for the Biden-Pell program; U.S. support of policy reforms in recipient countries; increased emphasis on science and (appropriate) technology; promotion of the private sector; maintaining ESF flexibility; and, improved evaluation.

Four other recommendations studied by an interagency committee appointed by the Secretary of State, resulted in the following decisions:

- Mutual Development and Security Administration. While the Administration will not pursue establishment of such a new agency, a study is underway by A.I.D. and the State Department to determine ways in which to meet the Commission's main aims of better integration of assistance programs and a unified voice to Congress.

- Legislative/Executive Consultative Group. While we will not seek establishment of such an "informal-formal" group, alternatives leading to a strengthened Congressional consultative process are being studied by State/H.

- Citizen's Network and White House Conference on Assistance. A.I.D. is developing an action plan for the network (using private funds); a decision on the White House conference has been deferred for the time being.

- Increased Assistance Levels. This recommendation, along with a similar one by the Kissinger Commission on Central America, is being taken into account as our budget submissions are developed.

Increase in Health Account

Senator Kasten: The FY 1984 A.I.D. request for the health account was for $100,656,000. The amount appropriated for this account was $125 million. The FY 1985 request is a $35 million increase over last year's request -- is A.I.D. now prepared to put into effect its new health poliyc?

Mr. McPherson: The increase in the Administration's request for the health account in FY 85 is a reflection of our confidence in the development impact of health programs. A.I.D.'s FY 1985 request, $158.1 million, is a 10 percent increase above the amount we are proposing to program in FY 84, including the supplemental request for Central America (a total of $143 million for the health account as a whole). Approximately half of the increase in health funding in FY 85 is for health programs in Central America.

The major features of the new Agency health policy, instituted in early 1983, are promotion of financially viable programs, and an emphasis on cost-effective measures that have a significant impact on infant and child mortality.

Seventy percent of A.I.D.'s FY 1985 health portfolio funding supports programs that address these two major concerns. In addition, the Agency made a major commitment last year to concentrate on one particular inexpensive, life-saving technology, oral rehydration therapy (ORT), and we have already increased our funding for ORT by more than 50 percent in one year.

In conclusion, A.I.D.'s health programs already reflect the priorities established in its new health policy, and we expect significant progress to be made in FY 1985.

INTERNATIONAL DISASTER ASSISTANCE

Senator Kasten: What is the current status of the Disaster Assistance Fund?

Mr. McPherson: Of the $25 million in disaster assistance funds, $22.5 million was programmed or obligated as of March 15, 1984. This includes $11.2 million for direct disaster relief and rehabilitation, $2.0 million to replenish disaster supply stockpiles, and $9.3 million for disaster preparedness and technical assistance programs.

Senator Kasten: As you know, there have been some questions regarding the use of disaster assistance in certain instances, for example in Grenada and Mozambique, which to many have seemed to be foreign assistance rather than disaster assistance. I wonder if it wouldn't be more helpful to rewrite your regulations so that the exact types of assistance which can be provided under this account are clearly spelled out?

Mr. McPherson: International disaster assistance has always been--and will remain--a jealously guarded funding mechanism intended entirely to reduce the loss of life and human suffering as a consequence of disasters. A particular type of event may, in fact, be disastrous in one situation but not in another. An example is the customs warehouse fire of February 29, 1984, in Costa Rica in which medical supplies were lost. We have responded to the disaster and continue to monitor the situation closely to avert possible loss of life; a similar fire elsewhere might have no disastrous consequence whatsoever. I believe that guidance contained in A.I.D. Handbook 8, Foreign Disaster Assistance, for determining the existence of a disaster situation is appropriate and provides the flexibility necessary for responding quickly to disasters as mandated in Section 491 of the Foreign Assistance Act of 1961, as amended.

PRIVATE SECTOR

Senator Kasten: The Kissinger Commission has recommended new and greater involvement by the private sector. While credit has been made available through an A.I.D. credit project with the Latin America Agribusiness Development Corporation, few loans have been made in the past two and one-half years because few want to borrow money. There is currently about $3 million available for loans under this program; however there are no applicants.

What does A.I.D. intend to do to encourage private sector involvement and improve the climate for investment and success? How will this differ from past efforts?

Mr. McPherson: In fact our $6 million credit project with the Latin America Agribusiness Development Corporation is actually moving ahead of schedule, and will be fully disbursed before the end of 1984. We have had no difficulty in attracting qualified applicants. Demand greatly exceeds available funds because of the scarcity of lending sources for private enterprise in Central America. An independent consulting firm which recently evaluated the project found that the project was proving to be successful, and recommended that additional funds be added. We believe that this experience bodes well for increased efforts to gain greater involvement by the private sector.

In terms of resources to encourage private sector involvement, the dollars made available under A.I.D.'s existing and planned large-scale ESF economic stabilization programs make possible imports from the United States of raw materials, intermediate goods and spare parts necessary to maintain and expand private sector production. We also require policy reforms, usually in concert with the International Monetary Fund, which stimulate private business and investment. This approach is already producing results. Preliminary data for 1983 indicate that capital outflow in the region ceased, on a net basis, and that there was a net inflow of short-term financial resources. After consecutive years of decline, economic decline was brought to zero in 1983 in both Costa Rica and El Salvador.

The National Bipartisan Commission on Central America made recommendations which establish a new emphasis on the private sector, and new approaches to stimulation of business. Principal recommendations include: (1) establishing emergency action committees of public and private leaders in each country to frame stabilization and recovery programs; (2) expanding Export-Import Bank and Overseas Private Investment Corporation programs, and facilitating the use of the Caribbean Basin Initiative; (3) establishing a U.S. Government role in renegotiation of official debt; (4) encouraging banks to reschedule commercial debt on the best terms possible (in the context of IMF adjustment programs were appropriate); (5) increasing U.S. economic assistance; (6) placing more emphasis on housing and infrastructure; (7) establishing a Trade Credit Insurance Program; (8) providing emergency credits to the Central American Common Market; (9) strengthening the Central American Bank for Economic Integration; (10) encouraging other donors to increase assistance to Central America; (11) requiring host government economic policy reform; (12) creating a Central American Development Organization; (13) helping Central Americans get duty-free trade with other countries; (14) reviewing U.S. non-tariff barriers; (15) supporting export promotion efforts; (16) establishing a venture capital company; (17) promoting small business programs, and (18) boosting agricultural development including agri-business.

We are requesting funds and authority to carry out these recommendations, which represent a new effort to encourage private sector involvement and investment.

AID's Current Private Sector Emphasis

Senator Kasten: U.S. private sector participation in LDC development is becoming increasingly important in attracting concessional aid and foreign capital. Recognizing this, the Administration has voiced a strong commitment to give increased attention to the role of the U.S. private sector in this area. How is the current A.I.D. private sector emphasis different from past A.I.D. practices?

Mr. McPherson: AID's private enterprise initiative focuses on the development, strengthening and expansion of host country private sectors as a means of achieving self-sustaining economic growth and development. Our approach is to utilize and incorporate, wherever feasible, the U.S. private sector as a means to this end.

This initiative is encouraging USAID Missions, in their program design and development process, to integrate private enterprise mechanisms for achieving development objectives. By viewing private enterprise as an alternative mechanism for achieving such objectives, we are encouraging USAID Missions to integrate private enterprise in the implementation of programs across all sectors. In the past, AID's efforts in promoting private enterprise development focused almost exclusively on the development or expansion of intermediate credit institutions, generally in the public sector, as vehicles for providing financial and other services to small- and medium-sized host country businesses. While the Agency continues to support these types of activities, the new initiative has considerably broadened both the promotion of private enterprise development, and utilization in achieving development objectives.

We are encouraging the participation of other capital market institutions in the promotion and support of small private business activities, including leasing companies, venture capital firms and others. We are also beginning to utilize private enterprise across all sectors as alternative implementing agents to public sector institutions. For example, we are encouraging technology transfer through private business channels. We are supporting private efforts to develop management and technical training programs which respond to private business needs, and several projects are planned or underway for the manufacture and marketing through private business of needed health care services and products not accessible to large sectors of the population in selected countries.

There are at least two advantages to utilizing private mechanisms wherever possible. First, by attracting private resources into development activities, we are able to leverage our limited resources, generally to a much greater extent than through public institutions. Second, and even more importantly, utilizing private enterprises, which operate on a for-profit basis, provides a much greater possibility that an activity will achieve a self-sustaining status than by going through public institutions which are not motivated to generate revenues. Therefore, there will not be the need for continued infusions of highly concessionary financing over long periods of time.

To give needed emphasis to this private enterprise initiative and provide the Agency with new and innovative private mechanisms for achieving development objectives, we established the Bureau for Private Enterprise. This Bureau has developed numerous programs and projects which incorporate private enterprise in development and which are being increasingly utilized by USAID Missions.

ACCOMPLISHMENTS UNDER THE PRIVATE SECTOR INITIATIVE

Senator Kasten: What specific accomplishments has A.I.D. achieved to date with its private sector initiatives?

Mr. McPherson: During a period of somewhat less than three years, PRE has acted as a catalytic element of A.I.D.'s private sector initiative. While all of A.I.D. is directed to use a private sector approach where appropriate, PRE has, despite its small budget, made a particularly important contribution to the initiative.

PRE has attempted to draw on lessons learned from Third World "success stories." It has also attempted to do an effective job within its limited resources (less than $30 million for FY 1984). PRE's four-part strategy includes: a) the removal of constraints to the development of private enterprise in host countries; b) the provision of credit to intermediate institutions; c) support for the development of agribusiness and health; and d) support to USAID missions in carrying out their own private sector activities.

PRE's successes have been both tangible and intangible. To date, PRE has made 11 loans in a total amount of approximately $20 million. All attempt to achieve significant development goals. These loans are unique in A.I.D. because most are to private borrowers, for medium time periods and are at near-market rates of interest. In addition, PRE has retained a group of prominent U.S. businessmen to provide counsel on its loan program. We believe it is a success that PRE is dealing with business on a businesslike basis, providing for economic development and achieving a good return for the U.S. taxpayer. (The new Revolving Fund will assist in this process.) The Siam Commercial Bank and Kenya Commercial Bank projects are the farthest advanced of PRE's loan projects and have been particularly successful.

Some of PRE's grants have been in support of loan projects (generally less than $200,000). Others are to important U.S. organizations which are quite well suited to A.I.D.'s private sector activities. These include the International Executive Service Corps and the Joint Agricultural Consultative Corporation. We believe that both of these are significant successes as they demonstrate ways in which A.I.D. can obtain dynamic U.S. business participation in economic development in the Third World and provide direct benefits to U.S. business as well. PRE's feasibility study program has also been a successful enterprise to date.

PRE has also attempted to institutionalize the private sector approach in A.I.D. The establishment of a "Private Sector Liaison Council" of top A.I.D. management has been one success in this regard. Work with USAID Missions has also increased -- from five Missions helped in FY 1982 to 20 Missions in FY 1983. In general, we find that A.I.D.'s receptivity to a private sector approach has increased and is evidenced by new private sector projects and we believe that PRE can take some credit for this success.

PRE, moreover, has taken the lead on privatization of government-owned business, capital market development and certain technology transfer matters, in addition to providing assistance in local currency programming.

These are some of PRE's successes. We believe, however, that as the initiative of the private sector approach builds, PRE's successes will grow as well.

How Private Sector Initiative Complements Efforts In Other Sectors

Senator Kasten: How is A.I.D. private sector emphasis complementing its efforts in health, population, and education; energy, and agriculture, rural development and nutrition?

Mr. McPherson: The private enterprise initiative is designed to encourage USAID Missions to utilize and incorporate private enterprise across all traditional AID assisted sectors (e.g., development and nutrition) as an alternative to public institutions for implementing programs and achieving development objectives.

Under this approach, during program and project design, USAID Missions are required to consider all possible implementing mechanisms and, wherever feasible, to utilize and incorporate private enterprise. In health, for example, several projects are utilizing private distribution channels for the marketing and sales of contraceptives. In education, we have provided initial support to technical and management training institutes which are also privately supported and will become self-sustaining over time. There are similar examples in other sectors.

PRIVATE SECTOR PROGRAMS

Senator Kasten: Mr. McPherson, can you tell the Committee what the percentage breakdown, on a geographical basis, was for your programs in Fiscal Year 1984 and what you think those geographical breakdowns will be like in 1985?

Mr. McPherson: In Fiscal Year 1984, we estimate total funding for programs supporting, or involving, the private sector to be approximately $205,476,000. In Fiscal Year 1985, we project total funding for these programs to be some $226,621,000. The percentage breakdown for these two years, on a geographical basis, is as follows:

	FY 1984	FY 1985
Africa	17.8%	10.4%
Asia	30.9%	40.0%
Latin America	33.8%	34.2%
Near East	0.7%	0.5%
Central Programs	16.8%	14.9%

It should be noted that centrally-funded programs -- in the Science and Technology, Private Enterprise, and Food and Voluntary Assistance Bureaus -- are implemented on a multi-country basis or are projects which benefit or affect the Agency's programs as a whole.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Kasten: What is the status of pledged and received contributions to IFAD from the OPEC countries?

Mr. McPherson: Iran is the only IFAD donor to remain delinquent on their initial capitalization pledge with an outstanding balance of U.S. $83 million against a pledge of U.S. $125 million.

Regarding the first replenishment, Iran, Iraq and Libya have yet to commence payment on their pledges, although Iraq has deposited a promissory note and is attempting to arrange for a drawdown and Libya has announced that they intend to provide the full amount of their pledge in "the near future." Nigeria and Saudi Arabia have not yet completed their pledged contributions, but both have announced arrangements to do so within the next few months.

Senator Kasten: What are the funding levels provided to IFAD by the western nations and Japan compared to total funds provided by the OPEC countries since IFAD's inception?

Mr. McPherson: Taking into account the initial capitalization and the first replenishment, the OPEC countries have provided 42% of IFAD's funds based upon the total pledged contributions of Category I (OECD) and Category II (OPEC). The OECD nations, including the U.S., have pledged 58% of the Category I/Category II total. The breakdown of actual pledges and payments can be found in the attached chart.

Senator Kasten: What firm commitments have been made by OPEC nations to IFAD's next replenishment?

Mr. McPherson: No firm commitments have been made by any donor to the second replenishment for IFAD. The replenishment negotiations concluded their third session in early March with the participating OECD and OPEC donors announcing that they are prepared to contribute to a second replenishment provided that agreement can be reached on all essential issues. The U.S. announced at that time that it is prepared to contribute to a second replenishment if satisfactory agreement can be reached on a number of conditions: a 50% OPEC share, a maximum 15% U.S. share and maximum $150 million/3-year U.S. contribution, a 1985-1987 (FY 1986-1988) replenishment period and agreement on a revised sublending interest rate policy and lending policy and country eligibility criteria, increased co-financing, a commitment to program and project evaluation and continued restraint in staff size.

As could be predicted, the OPEC nations maintain that their share of IFAD's resources must be reduced in a second replenishment due to depleted oil revenues and other indigenous factors. We are currently approaching the key OPEC donors on a bilateral basis to enhance our knowledge of the OPEC position. We intend to assimilate the results from all 3 sessions of negotiations and our bilateral discussions to devise a U.S. position for the fourth session of consultations currently scheduled for May 25-26, 1984. You can be sure that we will consult with the Congress about the U.S. position at each stage in these negotiations.

Senator Kasten: What cooperative relationships exist between IFAD and other United Nations organizations such as FAO, WFP , UNDP, UNICEF and others?

Mr. McPherson: Article 8.2 of the agreement establishing IFAD requires the Fund to cooperate closely with FAO and other organizations of the United Nations system. This requirement has led to the establishment of a wide range of cooperative agreements between IFAD and various United Nations organizations. In addition, IFAD is required by its charter to co-finance its programs to the maximum extent possible with other international and bilateral institutions and is also required by its charter to look to other international organizations, particularly international financial institutions, to supervise the implementation of projects financed with IFAD resources. This requirement has also led to the establishment of a range of specific agreements with the World Bank, regional and subregional development banks and other United Nations organizations to implement this requirement. In the following paragraphs, more specific discussion of IFAD's cooperative relationships with key United Nations agencies is provided:

1. The Administrative Committee on Co-Ordination (ACC)

The ACC, under the chairmanship of the Secretary-General of the United Nations, is primarily concerned with interagency consultation and coordination on issues of importance to the UN system. Concentrating on the planning and programming stages, efforts and resources are pooled and reflect policy guidelines established by the General Assembly and the Economic and Social Council (ECOSOC). IFAD participated in the regular sessions of the ACC and those of its subsidiary bodies (IFAD provides the leadership for the ACC task force on nutrition, for example) or submits views and comments to relevant reports prepared by ACC for submission to the ECOSOC and The General Assembly.

2. The World Bank and UN Specialized Agencies

(A) The World Bank

A wide range of programs are co-financed with the World Bank and the Bank frequently acts as a cooperating institution for the supervision of IFAD-financed projects. Frequent consultations and review meetings are organized between IFAD staff and their counterparts in the World Bank to arrange cooperation in areas of programming, project processing and appraisal, cofinancing, loan administration and supervision of project implementation. Both briefing and debriefing sessions with field-mission leaders are frequently held at IFAD headquarters to ensure that the specific concerns and requirements of IFAD are adequately reflected to render projects suitable for IFAD support. The exchange of sectoral reviews, policy papers and country economic reports constitute an important area of cooperation between IFAD and the World Bank. IFAD participated on a selective basis in World Bank-sponsored aid coordination groups and regularly attends the annual meetings of the World Bank/International Monetary Fund and Development Committee meetings.

(B) The Food and Agriculture Organization (FAO)

In December 1977, IFAD concluded an agreement with FAO setting out the scope and nature of their mutual cooperation. The basic areas where FAO and IFAD maintain close contacts fall within the context of food production, nutrition, agricultural and rural development, and matters pertaining to interagency coordination. Close contacts are also maintained concerning personnel and administrative issues and the use of language training facilities. Such cooperation, which has been highlighted by both organizations in appropriate fora, primarily involves project identification and preparation carried out by the FAO investment center either through missions specifically mounted by the center on behalf of IFAD or through joint missions. IFAD also holds program review meetings with the investment center to coordinate activities for the financing and organization of project identification and preparation missions and to arrange for its participation in mid-term review missions for monitoring and evaluation.

Cooperation with FAO in areas of mutual interest include: small-scale fisheries, food security in developing countries, rural development, prevention of post-harvest losses and encroachment on arable land, water management and irrigation, income generating activities for the rural poor, cooperation in the implementation of the program of action or agrarian reform and rural development, and nutrition.

IFAD regularly participates in meetings of the FAO Conference and Council, the UN/FAO World Food Program, and regional conferences and arranges briefing visits for FAO and UNDP representatives.

(C) World Food Program (WFP)

IFAD has given particular attention to promoting cooperative efforts with WFP in the improvement of the living conditions of the rural poor. The WFP and IFAD have co-financed a number of projects and continue to identify opportunities for co-financing.

(D) Cooperation with the World Food Council (WFC)

IFAD's relationship with the WFC dates from the Fund's formative years when the Council offered organizational and administrative support. This cooperation has grown and strengthened over the years and involves efforts related to national food strategies and small farmer food and agricultural development.

IFAD has actively participated in and contributed to a number of WFC-organized expert consultations and workshops on international and national food policies and strategies.

IFAD has actively participated in and contributed to a number of WFC-organized expert consultations and workshops on international and national food policies and strategies. It has collaborated closely with the Council in the preparation of food strategies. The Fund regularly attends meetings of the Council and WFC representatives participate in the meetings of the Fund's Governing Council.

(E) The United Nations Development Program (UNDP)

In April 1978, the Fund signed a memorandum of understanding with UNDP setting out the nature and scope of cooperation in the fields of food production and agricultural and rural development. A "special interest procedure" was established under which UNDP provides IFAD with relevant draft project documents, compatible with the Fund's mandate and requirements, for consideration and possible financing by IFAD.

Periodic reviews are undertaken to ensure the effective implementation of this procedure. IFAD and UNDP collaborate, in certain cases, from the early stages of project identification and/or preparation to ensure that the objectives set out under IFAD's mandate are incorporated into preinvestment projects for possible financing by IFAD. Consideration is also given to mounting joint missions.

IFAD has also utilized UNDP services (Office of Project Execution - OPE) for the administration and supervision of IFAD loans in selected countries. IFAD arranges briefing visits for UNDP resident representatives in order to acquaint them with the work of the Fund and to promote further cooperation at field level. UNDP field offices cooperate with the Fund in rendering assistance to IFAD's missions and by providing country information. In the period 1978-1983, IFAD and UNDP participated in co-financing 5 projects. One of these projects was IFAD-initiated and the remaining were initiated by other donors.

(F) The United Nations Children's Fund (UNICEF)

Close contacts and consultations between IFAD, UNICEF and WHO commenced very early in the Fund's operations. Specific areas of cooperation relate to the promotion and strengthening of nutritional components in agricultural and rural development projects.

In April 1983, a joint UNICEF/WHO team visited IFAD for the purpose of identifying possible areas of collaboration in various projects and programs where improving consumption and nutrition are major concerns. Possible areas of collaboration with these two institutions were identified in Africa, Asia, Latin America and the Near East and North Africa. As a result, UNICEF/WHO experts participated in the special programming mission to Pakistan in October 1983. In August 1983, discussion was also initiated by IFAD with UNICEF and WHO in connection with the utilization of the newly established "Survival Fund for the Third World" created by the Government of Belgium. Contacts were made by IFAD at the highest level in Brussels and Rome for this purpose. This has resulted in agreement on a joint program of action between Belgium, IFAD, UNICEF, WHO and UNDP.

(G) The International Labor Organization (ILO)

Under the cooperation agreement concluded with the ILO, the Fund has made use of the services and expertise of ILO in the preparation of rural development projects, particularly through high-level ILO specialists participating in IFAD's special programming missions to identify specific investment priorities for employment promotion and income generation. IFAD also seeks the advice of ILO regarding institutional constraints to rural development and the promotion of self-help cooperatives.

Senator Kasten: What relationships does IFAD maintain with American PVOs? Are there contractual relationships for field work and representation for IFAD in Washington and specifically with the Congress?

Mr. McPherson: IFAD has no contractual relationships with any American PVOs for representation in Washington or with the Congress. However, a number of them voluntarily disseminate information about IFAD and keep policymakers informed about IFAD's activities.

In certain countries where IFAD finances projects, governments have engaged non-governmental organizations (including American PVOs) to assist in the implementation of these projects. In Sierra Leone, for example, the government has requested that CARE provide services related to rural road construction.

IFAD recently presented to its Executive Board a background paper on "IFAD's Relations with Non-governmental Organizations." The general approach to relations with NGO's described in this report was fully endorsed by the 21st session of the Executive Board.

Senator Kasten: What is the public information budget for IFAD both for 1983 and 1984?

Mr. McPherson:

COSTS (U.S. DOLS	1983	1984
SALARIES AND ALLOWANCES OF PERMANENT STAFF	179,100	201,500
CONTRACTUAL SERVICES, TRAVEL COSTS, TEMPORARY STAFF, PRINTING AND RELATED COSTS	147,000	179,200
TOTAL COSTS	326,100	380,700

The above costs of the Information and Communications Unit represent less than 1.5 percent of IFAD's total administrative budget for 1984 and the administrative budget represents only about 5 percent of IFAD's program activities. Total permanent staff for information and communications activities (which also includes advisory services on the technical communications aspects of IFAD projects) is two professionals and two general services staff. While we do not have data on the information budgets of all United Nations agencies, this represents by far the smallest percentage of budgets for any of those agencies for which data is available.

Senator Kasten: What is the current level of professional and general services staffing?

Mr. McPherson: Prior to 1984, IFAD staffing provided for 74 professional and 93 support staff positions, plus the positions of President and Vice President.

The 1984 Budget proposed an increase of six professionals and eight support staff positions based upon the recommendations of former U.S. Comptroller General Elmer Staats. As a result, the authorized strength for IFAD is now 80 professional positions and 101 support staff positions. (After consultations with Congressional staff, the U.S. supported the additional positions.) As of 30 March 1984, 68 of the professional and 94 of the support staff positions are encumbered.

In addition, there are currently 44 temporary support staff with short term contracts. Some of these short term employees are under active consideration for appointment in regular vacant support staff positions.

Senator Kasten: How many contractual staff does IFAD have, at headquarters, in the field, and representing IFAD in Washington, London, Paris, Tokyo and the like?

Mr. McPherson: IFAD uses a wide range of consultants for participation in project identification, preparation, supervision and monitoring and evaluation missions and their numbers increase or decrease depending on the number of missions actively at work at any particular time. The average number of consultants on duty in the first quarter of 1984 was 36 persons, of whom 30 were engaged in contracts on less than two months duration and the remainder on contracts of less than four months duration.

IFAD also occasionally engages professional consultants for special tasks at its headquarters in Rome. The average number of such consultants engaged in the first quarter of 1984 was eleven, seven having contracts of up to four months and the remainder on contracts of four to six months duration.

While IFAD may engage other organizations to implement projects, IFAD has no regular or contractual staff of its own assigned at the field level. It also has no regular or contractual staff located at capitals of donor countries. IFAD does provide a portion of the costs of one professional and one secretary in the World Food Council office in New York for liaison on a range of United Nations issues.

Attachments

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (in '000s)

		FIRST REPLENISHMENT 2/		
COUNTRIES	INITIAL FUNDING 2/	PLEDGES	PAYMENTS	PAYMENTS AS % OF TOTAL CONTRIBUTIONS
Category I (OECD)				
Australia	9,300	10,440	10,440	100.00%
Austria	4,800	5,200	5,200	100.00%
Belgium	16,870	14,280	13,158	92.14%
Canada	27,970	43,980	23,320	66.67%
Denmark	7,500	9,720	9,720	100.00%
Finland	3,160	6,150	6,150	100.00%
France	28,020	49,000	40,834	83.33%
Germany	55,000	57,700	38,481	66.69%
Ireland	1,340	1,170	1,170	100.00%
Italy	25,000	38,700	38,700	100.00%
Japan	55,000	60,210	40,140	66.67%
Luxembourg	410	400	262	65.50%
Netherlands	50,170	44,600	44,600	100.00%
New Zealand	1,920	2,000	2,000	100.00%
Norway	25,240	25,000	25,000	100.00%
Spain	2,000	2,000	2,000	100.00%
Sweden	26,440	33,200	33,200	100.00%
Switzerland	12,500	15,500	15,500	100.00%
United Kingdom	42,450	29,750	19,834	66.67%
United States	200,000	180,000	90,000	50.00%
Subtotal	595,090	620,000	459,709	
Category II (OPEC)				
Algeria	10,000	15,580	15,580	100.00%
Gabon	500	801	801	100.00%
Indonesia	1,250	1,909	1,909	100.00%
Iran	124,750	19,145	-	-
Iraq	20,000	31,099	31,099	100.00% 3/
Kuwait	36,000	56,041	56,041	100.00%
Libya	20,000	31,099	-	-
Nigeria	26,000	40,459	26,857	66.38%
Qatar	9,000	13,980	13,980	100.00%
Saudi Arabia	105,500	155,618	103,746	66.67%
United Arab Emirates	16,500	25,680	25,680	100.00%
Venezuela	66,000	38,489	38,489	100.00%
OPEC - Special Contribution	-	20,000	20,000	100.00%
Subtotal	435,500	450,000	334,182	
Category III (LDCs)				
Subtotal	19,510	30,887	30,815	99.77%
Total	1,050,100	1,100,887	824,706	75.00%

1/ As of 24 February 1984

2/ As of 8 December 1980

3/ Cannot be drawn against

QUESTIONS SUBMITTED BY SENATOR HATFIELD

LEBANON - ESF

Senator Hatfield: Could you provide for the Committee a breakout of how much of the $150 million in ESF the Congress provided in the FY 83 supplemental for Lebanon has been spent and for what purposes?

Mr. McPherson: We had programmed the use of all $150 million of the Lebanon supplemental, but as you know, hostilities there have interfered with implementation of this program. As of today, we have obligated $25 million with accrued expenditures of approximately $17 million. These funds have been used for telephone system repairs, potable water and waste management, technical assistance to the Government of Lebanon in economic planning, PVO reconstruction activities, small business credit, vocational skills training and for relief supplies and coordination.

— We plan to obligate another $2 million for additional relief activities in the next week or two. This will bring our current obligation level to approximately $27 million.

-- We have firm commitments for another $14 million in urgently needed relief activities and support to U.S. educational institutions.

-- In addition, the Administration is consulting with Congress on moving $40 million from this appropriation to finance urgent needs in Grenada.

-- This leaves a balance of approximately $69 million in this program with which to meet urgent relief and reconstruction needs in Lebanon.

Senator Hatfield: Is there any intention to deobligate those funds and reobligate them for other purposes? Is there any intention to reprogram those funds for other purposes? If so, for what purposes would they be spent?

Mr. McPherson: We have no plans to deobligate already committed funds. However, of the $109 million not yet obligated, or firmly committed, we expect that $40 million will be reprogrammed to Grenada. These funds will be used for completion of the Point Salines airport, various reconstruction and development activities and balance of payments support.

The balance of $69 million will remain available to meet urgent Lebanese requirements as they emerge and as conditions permit the effective use of our assistance resources. We anticipate commitments for temporary health facilities, additional relief activities, support to U.S. educational institutions, reconstruction of facilities for the handicapped and continued support to PVO activities.

POINT SALINES AIRPORT - GRENADA

Senator Hatfield: A prefeasability study was recently completed for AID b, Wilbur Smith and Associates on the completion of construction of the Point Salines Airport. The cost of completion has been mentioned at around $19 million. Does this represent the total cost to complete construction of the airport or does it include construction roads leading to and from the airport?

Mr. McPherson: The total cost of completing the Point Salines Airport is estimated to be $24 million. The U.S. contribution to this effort is expected to be about $19 million.

The total cost includes upgrading approximately five miles of roadway connecting the airport with the outskirts of St. Georges.

Senator Hatfield: What sources of funding will be used to complete the airport and roads leading to and from the airport?

Mr. McPherson: We intend to use ESF monies to finance our share of the airport completion costs. The completion of St. Georges - Point Salines Airport road may be assigned to the Canadians who plan to contribute around $5 million to help complete the airport.

Senator Hatfield: Will any other monies be used:

Mr. McPherson: No Department of Defense monies will be used to complete either the airport or the connecting road.

Senator Hatfield: How many usable hotel rooms are currently availabe in Grenada?

Mr. McPherson: Presently there are about 325 international class hotel rooms in Grenada, plus about 300 guest house rooms available for visitors to the island.

Senator Hatfield: How many will be available by the projected time for completion of October, 1984?

Mr. McPherson: No additional capacity will be available by October 1984.

Senator Hatfield: How many hotel rooms are projected for completion within one year?

Mr. McPherson: Depending upon the pace of new investment in tourist facilities, another 500 international class rooms should be available within 18 months.

Senator Hatfield: Five years?

Mr. McPherson: In five years' time, we anticipate about 1,300 - 1,400 additional rooms will have been built.

Senator Hatfiled: Who will construct these hotels? Will they be funded by the private sector or with assistance from the United States?

Mr. McPherson: We expect that U.S. and Caribbean private investors will build and finance these hotels.

Senator Hatfield: How many airlines are presently flying into Grenada? With what regularity?

Mr. McPherson: One airline - Leeward Island Air Transport (LIAT) - is currently flying to Grenada four or more times a day.

Senator Hatfield: How many airlines contemplate flying into Grenada when the airport is completed?

Mr. McPherson: Threee international airlines, Pan American, American, and British West Indian Airlines (BWIA) have voiced interest in servicing Grenada once the Point Salines Airport is completed.

Senator Hatfield: Have any of these airlines firmly committed specific times and frequency for flights?

Mr. McPherson: None of these airlines has made a firm commitment as to frequency of proposed service.

Senator Hatfield: Are the water and power systems sufficient to support additional hotel rooms?

Mr. McPherson: Although water and power systems serving the island are not now sufficient to reliably meet current demand, plans are being prepared to improve reliability and where necessary to expand the capacity of both of these services.

CONSTRUCTION OF A NEW HOSPITAL - GRENADA

Senator Hatfield: As you know, during the October, 1983 invasion of Grenada the Richmond Hill Mental Hospital was severely damaged by U.S. armed forces bombing. To date, what actions have been taken to house the patients in other facilities?

Mr. McPherson: One wing of the Mental Hospital was destoyed. After the bombing some of the patients went home or to the homes of relatives, some were transferred to the General Hospital, others to the Geriatrics Home. Those that remained are still in the part of the hospital that was undamaged.

Senator Hatfield: The November 8, 1983, DOD Disaster Area Survey Team report stated, "following the removal of rubble from the mental institution, the building (which cannot be rebuilt) will be leveled and the site cleared." Was that action taken? Who paid for this action, DOD or AID, and with funds from what account?

Mr. McPherson: The AID Office of Foreign Disaster Assistance (OFDA) paid a contractor to exhume bodies and clear loose debris. Some of the walls to the destroyed wing remain upright.

Senator Hatfield: The November 8, 1983, DOD report also suggested the construction of a new mental hospital at a proposed cost of $800,000. The report recommends that AID provide technical assistance during the start-up period, during which "implementation of a new design for mental-health services, including facility construction, is needed." Has that design been prepared? Who funded the design work and what was the cost?

Mr. McPherson: AID is reviewing the recommendations made by Caribbean architect J. Latouche who prepared a preliminary design for a new 100-bed mental facility. This design will be reviewed by U.S. public health experts before a new facility is built. No USG funds were expended in preparation of this report.

Senator Hatfield: Is it the intention of AID to pay for the cost of constructing a new mental health facility in Grenada to replace the one destroyed on Richmond Hill? What will be the cost of construction?

Mr. McPherson: AID plans to finance the construction of a new, more modern mental facility to replace the one destroyed at Richmond Hill. At this time AID estimates construction will cost around $800,000 and equipment needs will cost an additional $150,000.

Senator Hatfield: What funds will be used? Will AID use monies unspent from the statutory earmark for Lebanon?

Mr. McPherson: AID plans to use funds that have been reprogrammed from the Lebanon program.

Senator Hatfield: Is it the intention of AID to seek a cooperative agreement with DOD to share in the cost of construction? If not, why not? What is the nature and extent of conversations and negotiations between AID and DOD on this matter?

Mr. McPherson: AID will finance the entire amount of the mental-hospital reconstruction. DOD informed AID that the Defense Department is unable to contribute to this effort because under U.S. statute DOD is proscribed from compensating for damages incurred in a combat situation. AID has had extensive contact at numerous levels with the State Department and the Department of Defense on this matter including at the assistant secretary level.

Senator Hatfield: In what other previous incidences have AID funds been used to repair buildings or facilities damaged or destroyed by U.S. armed forces during invasion or intervention into another country? Was this repair or construction specifically authorized by Congress?

Mr. McPherson: AID is not aware of any precedents in similar circumstances.

Senator Hatfield: Is it the intention of AID to seek additional funds for Grenada in FY84 or FY85 beyond those already appropriated or requested?

Mr. McPherson: AID plans to provide a total $57.2 million of bilateral emergency, rehabilitation and intermediate assistance to Grenada during FY 1984 and FY 1985. After FY 1985, AID's assistance budget will revert to our regional program administered out of Bridgetown, Barbados. The $57.2 million figure includes $2.2 million from the Office of Foreign Disaster Assistance, $15 million from money de-obligated from the Syria program, and $40 million from the reprogramming of funds from the Lebanon program.

Senator Hatfield: What is the projected level of assistance that the U.S. will provide over the next five years to Grenada?

Mr. McPherson: While AID's programs beyond FY 1985 are being formulated at this time AID's regional assistance program for Grenada will probably provide aid roughly equal, on a per-capita basis, to assistance that is planned for the other Eastern Caribbean islands.

Senator Hatfield: How does this compare with assistance being provided by other countries to Grenada prior to October, 1983?

Mr. McPherson: It is difficult to compare U.S. assistance to Grenada with that provided by other countries prior to October 1983.

First, almost all pre-October 1983 aid was from Cuba and other Eastern Bloc countries. Much of the assistance provided was for the single purpose of completing the Point Salines Airport, at that time, an effort with a clear military purpose. No effort was made to pursue supporting investments to expand or update the island's productive infrastructure or tourist base. Agriculture, roads, water and electric generation were largely ignored. A good deal of the East Bloc aid was directed to fund Grenadian students in Cuba, East Germany and the Soviet Union. A good part of the rest of Communist aid was earmarked for police, military and other politically-linked activities, such as left-wing labor training and introduction of Marxist textbooks in the school system.

Senator Hatfield: What level of assistance is being provided by other countries (i.e., the levels and the specific countries)?

Mr. McPherson: Several countries have announced their readiness to provide assistance to Grenada since November 1983 including Canada ($21 million), the U.K. ($3 million), Australia ($100,000), some $33 - 35 million from the Caribbean Development Bank and a smaller amount from the EEC.

QUESTIONS SUBMITTED BY SENATOR JOHNSTON

JAMAICA'S FINANCIAL DIFFICULTIES

Senator Johnston: Since the Seaga Government took office in Jamaica, an important element of our foreign policy has been to foster the success of the Jamaican democratic process and market economic model. An important element in our support is direct assistance furnished through AID. Jamaica is one of the top five per capita recipients of direct U.S. assistance.

We all share an interest in Jamaica's success. An important measure of Jamaica's progress is its ability to meet its foreign obligations, particularly the obligations owed to U.S. entities because a concomitant element of our regional strategy enunciated in the Caribbean Basin Initiative just two years ago before this Subcommittee is the encouragement of investment by U.S. companies in Jamaica.

I understand Jamaica is in the process of renegotiating its financing with the IMF; and I am told that the country's financial position may be so severe that Jamaica shortly may not repay even a $7 million debt owed one U.S. company. I would appreciate your submitting to the Subcommittee a report on Jamaica's financial situation, with a special focus on whether Jamaica has a consistent record of meeting its debt obligations to U.S. companies, is current now, and is likely to remain so.

Mr. McPherson: Jamaica's present balance of payments situation is very constrained. Recovery from years of economic mismanagement is a slow, painful process. In addition, the recent international recession severely affected Jamaica's leading export industry, bauxite/alumina. Bauxite/alumina production is projected to increase significantly in 1984 but not until the second half of the year. Jamaica, as part of its stabilization program, undertook a substantial devaluation of its currency in late 1983. In the short-run, this places additional strain on the country's foreign exchange position. Until equilibrium is restored as a result of recovery of bauxite/alumina production and development of nontraditional exports, Jamaica is likely to experience short-term difficulty in meeting its external financial obligations. However, agreement with the IMF on a new standby agreement is expected soon and should ease Jamaica's balance of payments predicament. In addition, the IMF agreement will trigger flows from other official sources and from commercial banks.

As noted above, Jamaica's financial difficulties have caused it to fall behind in repaying debts and other foreign exchange obligations to banks and firms, including those from the U.S. However, U.S. firms have received no worse treatment from the Jamaican Government than those from other countries. The U.S. is strongly committed to assisting the Jamaican economic recovery effort succeed. The State Department and the U.S. Embassy upon request have furnished appropriate advice and assistance to U.S. firms owed money by Jamaica and will continue to do so.

GRENADA

Senator Johnston: In testimony earlier this week, we were advised that it is likely that the Administration will be sending up a reprogramming request to complete construction of the airport in Grenada.

I have serious reservations about the financial feasibility of this project, and would appreciate your providing each member of the Subcommittee with a copy of your pre-feasibility study of it so that we can determine whether the project is indeed sound.

In addition, please address the following questions:

Senator Johnston: How many hotel rooms are now available for tourists on Grenada?

Mr. McPherson: According to pages 2-4 of the Wilbur Smith Airport Prefeasibility Study, there are some 606 rooms potentially available for tourists at the present time. This involves all hotels, guest houses, apartments and cottages. Assuming double occupancy, a tourist season of 280 days, and an average stay of 7 days this is sufficient to accommodate 48,480 tourists. Current tourism is in the order of 30,000 tourists per year with the 2000 projection set at 100,000 with the new airport. There has been significant interest by U.S. and other private investors in building new hotels, or in expanding existing facilities on the island.

Senator Johnston: What is the current power capacity on Grenada? How many new hotel rooms could current capacity support?

Mr. McPherson: The present power generating capacity on the island is in the order of 3MW, when all generators are working at capacity. However, the seven diesel generators are old and were poorly maintained; several are often down for repairs at any one time and power outages in certain parts of the island frequently occur. Two new generators each with 1.8 MW capacity have been delivered to the Grenada Electric Company and are expected to go on the line during July, 1984. In addition, A.I.D. has procured poles, transmission wire and transformers for the power company. When all this equipment is in place, there should be adequate power to meet current demands as well as some small excess capacity to meet a modest expansion.

Senator Johnston: What is the current water situation on Grenada? How many new hotel rooms could current capacity support?

Mr. McPherson: The current water distribution problem on the island is substantial because of past neglect of the system. A.I.D. is improving matters by procuring bore hole pumps, chlorinators, and is building sedimentation tanks, etc. In addition, the Caribbean Development Bank is studying the feasibility of constructing two large water treatment facilities on the island. The increase in tourism used in the analysis of Point Salines would not of itself prove an insurmountable strain on the system. What is needed, and what has begun is badly needed repair and rehabilitation of the treatment and distribution system. Water, itself, is in plentiful supply on the island.

Senator Johnston: How many airlines now fly into Grenada and what is their seating capacity? Do you have any commitments? If so, list individually along with seating capacity?

Mr. McPherson: The principal airline now flying into Pearls Airport is the Leeward Islands Air Transport Co. (LIAT). In addition, several small three or four passenger aircraft belonging to the LIAT have unscheduled service to Pearls. The total number of passengers (non-tourists, tourist, and intransit) is expected to be approximately 160,000 in 1985, or approximately 440 persons per day. However, seating capacity would be well under this figure since the figure includes both enplaning and deplaning passengers who would use the same seats. Subtracting the intransit passengers, dividing the remainder by two and adding back the intransit passengers yields a figure of 89,500 passengers.

At the present time, there are no formal commitments from additional airlines to use the airport at Point Salines, although preliminary discussuion with U.S. and Caribbean airlines serving the region have revealed strong interest in adding Grenada to their service. Grenadian tourist and airport personnel have received similar responses from their own soundings. Firm commitments cannot be made however, until the field is certified by the FAA and ICAO for international service.

Senator Johnston: How many flights, with how many seats are necessary to make the airport economically viable?

How many hotels rooms are needed to support this number of flights and how many additional rooms will that require?

What sorts of water and power improvements will be required to support that number of rooms?

What is the costs and how long will it take to make those infrastructure improvements?

Mr. McPherson: The key assumption regarding viability of the airport is that the annual tourist flow would increase from 30,000 without the new facility to 100,000 with it by the year 2000. Assuming aircraft configured to seat 150 passengers (Boeing 727), this signifies an increase from four round trips flights per week to about 14 such trips. On a weekly basis, 30,000 tourist per year signifies about 600 per week, and 100,000 signifies about 2,000 per week. Further, increased revenues from tourist use of the new facility is expected to be supplemented by increasing air cargo service as export oriented production begins to take advantage of improved access to U.S. markets under the CBI, as well as improved access to markets within the Caribbean itself. For tourism, assuming double occupancy, by the year 2000 some 1000 rooms would be needed, an increase of roughly 400 rooms over present capacity.

The current power system in Grenada will be up-graded by the addition of two 1.8 MW generators this July. This should be more than enough to accommodate additional tourist requirements, assuming appropriate maintenance of the existing system, which was neglected in recent years. The potable water system is under improvement through installation and repair of pumps, pipes and storage facilities. Special attention will be necessary to accommodate needs in the Grand Anse Beach, and other tourist areas. These power and water infrastructure improvements were already planned and are not attributable to the airport. Many can be completed by the time the airport is opened, but expansion and maintenance are continuing requirements.

A breakout of the total project cost may be found in Chapter II C, "Cost Estimate and Financial Analysis ", of the project paper. An amount of $2.1 million has been budgeted to enable the Government of Grenada to finance costs to be incurred by the two foreign contractors to resume operations and replace or repair damaged equipment and property. At this time, we do not have any data on allegations regarding the extent of damage caused by U.S., as contrasted to Cuban, or any other forces at the airport. The estimate for the reconstruction of the airport road to the Sugar Mill circle is $123,000, and the road from Sugar Mill to St. Georges has been estimated at $525,000.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

AFRICAN FOOD AID - LOGISTICS

Senator DeConcini: Mr. McPherson, I would like to ask a number of questions regarding the logistics of food aid to those African countries in need. My personal observation of past instances of this type has been that the citizens of this country and their Congress have proceeded with a spirit of unlimited generosity. They have been willing to do whatever is needed in the way of funding, direct food aid or any associated concern. After the fact, it has sometimes become apparent that those heart-felt humanitarian concerns were sadly deflated by reports of serious mismanagement, graft of the most cynical sort and a failure in some part to get humanitarian aid to those who were desperately in need. I fully understand that the questions which follow will take some time to answer; yet I feel it necessary to put you and your staff to this trouble, so that we can all assure ourselves that we are trying to profit from past lessons.

In that spirit, I would first of all like to know about the port and storage facilities in the drought affected regions. Can you supply us with the best estimates available of the capacity and storage facilities which are likely to receive any emergency food aid in the coming months? In addition, would you include your estimate of the need to increase the capacity of any particular port or storage area which is likely to receive this aid? To the degree possible, I would like you to identify where such increased capacity is required, and the likely range of such improvement.

Mr. McPherson: In general, the most serious problem associated with the movement of emergency commodities into a country is not one of overall port capacity, which in any event could not be expanded in the relatively short period during which emergency food assistance is required; rather, the coordination of all donor assistance is the key to ensuring an orderly and effective entry and distribution of emergency foodstuffs.

To ensure timely donor coordination in the existing African crisis situation, a number of initiatives have been undertaken. Within the U.S. Government, a Food Security and Logistics Task Force has been established. Chaired by the Office of Food for Peace within A.I.D., this group includes the Africa Bureau, the Office of Disaster Assistance and transportation specialists within A.I.D. as well as USDA shipping and commodity specialists. The Task Force meets on a bi-weekly basis to review scheduled shipments of commodities and to discuss and resolve country-specific delivery, port and logistics problems.

The coordination of all donor shipping information rests with the World Food Program (WFP) of the United Nations. With U.S. encouragement, the WFP has been actively filling this role in the past months. They are regularly circulating shipment and logistics information among the donor countries. In addition, WFP/Rome has instructed the FAO resident representative in each country to assume the coordinating role on a country by country basis. The WFP Director of Emergency Operations has recently travelled to Africa to personally review this massive emergency program.

In an effort to assist WFP and provide for our own necessary advance planning, A.I.D. will shortly contract for an American expert on Africa port capacities and capabilities, to meet with port, WFP, and A.I.D. authorities throughout Africa. His efforts will be directed at ensuring that all contingencies have been met to effectively handle the large influx of emergency food aid.

AFRICAN EMERGENCY FOOD PROGRAMS - PVOs

Senator DeConcini: Could you please give us your estimate of the capability of the major private volunteer organizations in the drought stricken areas to participate in an emergency food program. Do any of these agencies have the ability to expand their operations on an emergency basis so as to materially improve their participation in the distribution of food aid? What would be the most appropriate form of grant aid that could be made available to these organizations to enable them to expand their operations?

Mr. McPherson: A.I.D. recognizes clearly that private voluntary organizations are often the most efficient channels for providing food aid to drought victims in rural areas. Catholic Relief Services (CRS), for example, has expanded its regular programs in several countries to incorporate disaster assistance. CARE reacted swiftly to set up drought relief support operations in Mozambique, and Seventh-Day Adventist World Service (SAWS) vice Adventist Development and Relief Agency (ADRA) expanded its role in Ghana to include distribution of food aid. With the encouragement of the Office of Food for Peace, World Vision Relief Organization (WVRO) is preparing proposals for emergency food assistance programs in Ghana, Mali, Mauritania, Senegal, Upper Volta, Zaire and Mozambique. Finally, to ensure the widest possible PVO participation and utilization of the $90 million African supplemental, a letter has been sent to a number of PVOs to encourage their development of concrete proposals.

The PVOs generally need funds to support broadened operations and increased managerial needs. Generally, the most appropriate form of grant aid in these cases is dollar funding from the Office of Foreign Disaster Assistance (OFDA). This type of grant is currently supporting PVO emergency activities in Mauritania, Ghana, Senegal, Mozambique and Upper Volta. However, when OFDA funds are limited, arrangements can be made to monetize a portion of the food aid. This has the advantage of increasing the food supply and generating funds for program support. Its disadvantage is an increase in the administrative work load of the mission and the PVO. Moreover, local proceeds cannot be used to purchase imported supplies unless they are already available in the country.

AFRICAN FOOD AID PROGRAMS - LOCAL MANAGEMENT

Senator DeConcini: It is apparent to me on the basis of a recent trip to Central America that there are serious constraints on the ability of the governments of some of those countries to accept and properly manage large-scale commodity programs. I presume the same to be the case on the part of many of the countries in Africa which are in need of emergency food aid. What is our government presently doing, or what does it plan to do, in conjunction with an emergency food program to compensate for organizations and manpower deficiencies in those ministries or other African governmental organizations which must administer the food aid we send? To the degree possible, I would appreciate any specific illustrations which point out conditions in particular countries.

Mr. McPherson: AID requires organizations programming emergency food aid to meet specific standards of accountability and to effectively distribute all PL 480 food under their control. Certain African governments need U.S. technical assistance to meet these requirements. In Lesotho , for example, U.S. technicians have been detailed to the Government to assist in the administration of the emergency food program. Food monitors in Senegal, Mauritania, Upper Volta, Mali and many other countries with bilateral PL 480 emergency programs work for AID but provide a significant amount of assistance to the respective governments in planning and monitoring emergency food distribution. In certain situations, AID specialists or contractors from Washington help governments analyze their emergency needs and design programs appropriate to their administrative capacity. For example, the Office of Foreign Disaster Assistance (OFDA) sponsored a group of specialists to do the first major assessment of the severe food shortages in Ghana. OFDA also sent a team from the Center for Disease Control to make a nutritional assessment of Mauritania.

AID relies on voluntary agencies in many cases to assure effective distribution of food aid. In Somalia, for example, AID hired CARE to improve the Government's capacity to deliver food to refugee camps. CARE will also be playing a similar role in Mozambique for emergency feeding.

DIVERSION OF EMERGENCY FOOD AID

Senator DeConcini: In a related vein, I am aware of one past instance in West Africa where U.S. emergency food aid was delivered but never reached the region of the country in need because of the lack of truck transportation and petroleum. It is conceivable to me that similar situations might exist today, and I wonder what we might do differently in such a situation. How can you help me assure U.S. taxpayers (1) that U.S.-funded aid delivered to an African country in need is likely to reach those who need the food; and (2) that U.S. aid will not be off-loaded at those ports where there is no real prospect that it is going to be put to the use for which it is intended.

Mr. McPherson: I am not aware of the situation to which you refer. We have come a long way, I believe, in our ability to assure the public and ourselves that our food aid reaches those for whom it is intended. Before a program is approved by the U.S. Government, we require explanation of a number of different things. These include, but are not limited to, an analysis of the problem in the particular country, the specific problem(s) the program will address, the manner in which the program will be implemented, how the program will be monitored to ensure compliance, and any problems which might crop up and impede carrying out the intent of the program. The organizations with whom we sign our emergency food aid agreements, whether foreign country or American private and voluntary organizations, agree to provide the food aid under conditions mutually agreed, including, for example, guarantees of priority berthing in port and expeditious transshipment through the port enroute to the area of need. This year alone, for example, the A.I.D. missions in Mauritania, Ghana and Senegal, and the Embassy in Mozambique, all identified internal transport, storage and handling as a constraint to delivering the food to people-at-risk. The Office of U.S. Foreign Disaster Assistance, after review of the problems and assessment of the situations, provided money to our cooperating organizations in those countries to ensure the commodities move quickly to the people for whom they are intended. In addition, A.I.D. continues to hire food monitors (generally former Peace Corps Volunteers familiar with the country and its habits) to ensure the food is delivered to the people for whom it is intended.

FOOD ASSISTANCE TO REFUGEES

Senator DeConcini: Can you provide some indication of the refugee problem which is resulting from the famine in Africa. Are we taking special measures through our aid program and personnel or in cooperation with private volunteer organizations to deal with new refugee problems? Is there additional assistance needed for this purpose?

Mr. McPherson: This is a relatively new phenomenon -- a person who crosses an international border solely because of the impact of drought. In the past, there have been instances when people have been uprooted because of a combination of factors, including warfare and drought, but not until just this year have we seen any significant movements that were related only to drought. At present, Africa has about two million refugees. Perhaps 10 percent of them have left home because of drought alone.

The normal mechanism for dealing with refugee flows in Africa is the United Nations High Commissioner for Refugees (UNHCR). They are most concerned about the current situations in Africa, particularly the influx of peoples from Tigray Province of Ethiopia into Sudan and the movement of people from Tete Province of Mozambique into Zimbabwe. The World Food Program (WFP) is the international organization that provides food assistance to people such as these; and, in fact, WFP has received requests for assistance to help new arrivals in Sudan and Mozambicans in Zimbabwe. Subject to the recommendation of our field posts, we are always prepared to consider supporting such appeals.

I should point out, however, that in almost every case it is much preferred to have people remain in place, receiving food aid, rather than to uproot themselves. Almost all the emergency food aid programs we support through the voluntary organizations, host governments and the WFP are specifically designed to keep people in those areas where they are living, rather than to encourage them to pick up stakes and move on in search of food. From that standpoint, what we are doing has a significant impact in permitting people to remain in situ, and discourages increased flow of refugees across international boundaries.

Emergency food assistance is being provided to both drought victims and refugees in Africa. With the $90 million supplemental now law, A.I.D. will be able to program, as needed and requested, additional emergency food assistance for refugee aid. Additional assistance will also be provided in FY 1985.

Africa Drought Disasters: OFDA Assistance

Senator DeConcini: I understand that a January situation report of the U.N. Food and Agriculture organization identified over $100 million in non-food aid that is needed to respond to the results of famine in 24 African countries. These needs include transportation and logistical support as well as seed and tools for planting the next crop.

Has our government indicated any willingness to respond to the FAO requests? What assessment has been made by U.S. observers of the non-food aid that is necessary to meet famine-related problems?

Mr. McPherson: AID's Office of U.S. Foreign Disaster Assistance (OFDA) has responded to drought disaster declarations by U.S. Ambassadors in nine African countries (Mauritania, Senegal, Ghana, Upper Volta, Sao Tome and Principe, Mozambique, Niger, Ethiopia, and South Africa). The non-food aid assistance provided and committed this fiscal year has totaled approximately $8.1 million.

In every disaster, OFDA instituted and has continued a detailed dialogue with U.S. country teams to measure as precisely as possible the specific relief needs. As part of this effort, OFDA has sent specialized teams to address specific subjects such as food distribution and logistics, potable water, and medical and nutritional needs. These teams have buttressed U.S. Mission assessments in Ghana, Upper Volta, Mauritania, Mozambique and South Africa.

In addition, OFDA relief funds have been used to provide spare parts and maintenance for vehicles and fund transportation of food commodities in Ghana, Mauritania and Senegal, and to supplement emergency feeding operations by private and voluntary organizations in drought stricken areas of Ethiopia, Mozambique and black homeland areas in South Africa.

SUBCOMMITTEE RECESS

Senator **Kasten**. The subcommittee will stand in recess.

[Whereupon, at 12:15 p.m., Thursday, March 8, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, MARCH 14, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2 p.m. in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF GEN. HERBERT L. BECKINGTON, INSPECTOR GENERAL, AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order. This afternoon we will hear testimony from three witnesses, so it will be necessary for us to be as brief as possible and to summarize statements, with the understanding that your entire statement will be inserted for the record.

We will begin this hearing with Gen. Herbert L. Beckington, Inspector General of the Agency for International Development. We will then hear from Frank Conahan, Director of the National Security and International Affairs Division of the General Accounting Office, and last will be Robert Mashek, president of the Inter-American Foundation.

General Beckington, we are pleased to have you with us. We appreciate the work that you are doing with AID and also with us in terms of trying to get the kind of accountability and the kind of management that all of us are working for. We thank you for the work you are doing and the close cooperation we have had with you. We look forward to your testimony.

General BECKINGTON. Thank you, Mr. Chairman. I will proceed directly to a very brief summary, Mr. Chairman, of our statement, which I have provided for the record.

SUBSTANTIVE MANAGEMENT IMPROVEMENT ACTIONS

I have focused my statement on three points. First, I am able to report to you that substantive management improvement actions have been taken by the Agency for International Development here at the

Washington level during the past year. More are being actively considered.

The whole subject of effective implementation of the several aspects of our foreign aid program is very much in the forefront of Agency thinking here in Washington. Implementation was the theme of the Administrator's retreat last summer. It was singled out for special emphasis in the Administrator's annual remarks to the Agency's employees just last month.

DELIVERY PROBLEMS IN FOREIGN AID

Second, I must tell you that my reporting from the field over the past year continues to reflect the same stubborn problems at the delivery end of the foreign aid that I have testified to in prior years. Obviously there is a time gap in the globally spread foreign aid program between the effort and energy applied to implementation here in Washington and discernable impact in the field.

MANAGERIAL ABSORPTIVE CAPACITY

Third, in keeping with my statutory responsibility to advise the Congress from time to time of problems or potential problems affecting the efficiency and effectiveness of Agency operations, I raise a point of growing concern to me. It has to do with what I have termed the Agency's managerial absorptive capacity.

We are carrying out a wide range of foreign aid programs in a large number of countries involving literally hundreds of projects, programs, contractors, grantees, host country governments and private agencies. Increases in Central America, Africa, the Caribbean, and the Philippines are being considered.

My own reporting—and I think that of the GAO—reflects an agency that is fully engaged and in some instances possibly overcommitted now in its ability to totally manage its affairs.

That is a summary of my statement, Mr. Chairman.

[The prepared statement of General Beckington follows:]

PREPARED STATEMENT OF HERBERT L. BECKINGTON

INSPECTOR GENERAL

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, I have been asked by the Subcommittee to provide testimony today updating my reports to you of the past two years. Those earlier reports responded to specific points raised with me by the Subcommittee dealing with problems in the day to day management and implementation of the foreign aid program.

Today, I want to talk about three things. They are:

First, the intensive efforts underway by the Agency to deal with a number of the repetitive management and administrative problems which have adversely affected the economy, effectiveness and efficiency of some of our foreign aid programs.

Second, an updating on some of the problem areas I have previously discussed before the Subcommittee, drawing from Inspector General reporting completed in the year that has gone by since your last series of hearings.

Third, from the standpoint of my statutory responsibilities as Inspector General relative to economy and efficiency in the administration of programs financed under the Agency for International Development I want to raise the question of the Agency's possible over-commitment of finite management and administrative resources.

I.

On the subject of management and administrative improvements I think it is entirely accurate for me to say that the Agency at the Washington level is deeply and fully involved in extensive efforts to correct, to solve, to remove long standing problems and weaknesses. In testimony in each of the past two years I have noted the interest and resolve of the Agency's senior management officers to address management performance. Over the past year this effort, in my judgment, has gained momentum and specific actions have been taken and are in train. Here are some examples:

Host country contracting. Historically and presently this is a source of major performance problems at the delivery end of the foreign aid process. However, this year I can report that all aspects of this method have been subjected to an intense review. A host country contract inventory system has been established and activated. This one step will make possible improved management, auditing and administration of this system. Verification and payment procedures in support of these contracts have been changed; a long standing bias in favor of host country contracting has been eliminated at the policy level. Bureaus, missions and host countries are enjoined and required to choose this method only after careful and rigorous assessment of local capabilities and resources.

Payment and verification procedures have been changed. Drawing upon GAO and IG reports, as well as other sources, the Agency has clarified, strengthened and tightened the rules governing this vital financial area. Guidance and requirements on the use of such payment methods as Direct Letters of Commitment and Bank Letters of Credit, for example are now much clearer and tighter than heretofore. Accounting and financing questions must now be actively considered from the outset of project planning. This is a sharp change from past practice. The Agency has taken specific actions to decentralize administrative, financial and planning tasks. If successful, they will reduce red tape, shorten time frames, save staff time and should effect substantial cost savings. A concerted effort is being made to lengthen overseas tours for the purpose of providing greater countinuity of control and direction of AID programs and projects. In the past two years the Agency-wide average overseas tour length has gone from 35 months to 40. I think this is progress in a very key area. The Agency is making greater use of independent financial management services overseas. The purpose is to strengthen by direct training, guidance and hands-on support the financial accounting and planning skills in host countries. The Bureau for Africa and its country missions have been in the forefront of this effort. Our missions in Sierra Leone, Zimbabwe, Upper Volta, Senegal, Uganda, Zaire, Sudan, Somalia and Kenya have all picked up on this in mostly the past year.

Internal Controls. The Agency is participating fully and agressively in the government-wide effort to improve internal controls under the now well known OMB Directive 123. This is a very broad effort covering not only some of the major subjects of the type I have been referring to, but also those such as motor pool operations, imprest funds, expendable and non-expendable property inventories and so on.

Finally, I am convinced that the tone, spirit and institutional resolve of an Agency as it faces up to these very dfficult problems which detract from efficient operations and administration is not set in the first instance by subordinates or by the Inspector General, but by the Boss. Two weeks ago the Administrator of the Agency in his remarks to Agency employees talked about a number of things, of course, but made abundantly clear that we are at a point where, for all of us, more efficient implmentation of our foreign aid programs must be at the top of our priorities.

II.

Now let me turn to my second subject, an updating on some of the problems the Subcommittee has probed in the past.

I draw here upon the factual information contained in IG reporting of the past year, and in summary, the same kinds of problems at about the same levels are still being reflected in those reports. The LDC environment in which these AID programs and projects are carried on remains as difficult as ever. In some countries in which AID operates I think these difficulties have increased over the past year or two.

In what I would term the 58 major reports of the past year, we continue to find problems of --

- Cash management;
- Internal controls;
- Contractor performance and Contract administration;
- Commodity procurement and Administration of the commodity programs;
- Food aid delivery; and
- Project implementation

Your Subcommittee receives all of the Agency's IG reports, Mr. Chairman, so that I will in this statement offer summary comments on some of these.

On cash management we are providing advances to contractors in excess of needs, we are incurring excessive costs, bank charges and interest and lagging in debt collections primarily because we too frequently are not following and applying our own generally adequate procedures.

On internal controls as we have reviewed the vulnerability of the Agency we are finding areas of vulnerability not identified and addressed by our Bureaus and Missions in project management and monitoring, commodity procurement for projects and inventory control and maintenace. I should note, however, that the OMB 123 process on reviewing internal controls is designed to do just this -- identify the weaknesses, and thus I think we can expect to see improvement here if we follow up on what we find.

On contractor performance and contract administration we continue to report a fairly high level of problems. Here I am talking about performance under the contract terms, and the Agency's oversight and monitoring of contractor performance. This, I think, is a serious matter. We should be able to expect, within reasonable limits, a contractor to deliver on his contracted commitments -- on time, on budget, meeting specifications and so on. The Agency's monitoring systems should be sufficiently alert and effective so that if slippage or performance problems begin to develop we know it early on and can take the actions to correct, or help strengthen or amend relative to the contractor or the host country or both as may be necessary. Much of the time we do not do this very well, indeed we have found situations in which the actual status of a contractor's performance is not very well known to an AID Mission, Bureau or host country. Reports in these cases are not being made, or read, site visits are few, engineering or other technical oversight is inadequate.

Commodity procurement continue to appear in our reports as a source of difficulties. The subject here essentially is procurement of things in support of active aid projects, everything from bicycles to construction materials to complex equipment. Much of this is tied to the host country contracting method and reflects poorly trained people and inadequacies in such basics as good inventory, ordering, warehousing and handling procedures - and our inability - AID's - to give enough monitoring and oversight to these matters.

Food aid delivery continues to face a number of problems of the kind this Subcommitte has heard before. However, here I want to report on what I think is a truly substantial effort by the Agency to meet and deal with these problems. The FVA Bureau which directs and controls this function is in the midst of a major effort to find ways to improve the effectiveness and efficiency of our food aid programs. I have temporarily ceased new audit effort in this Agency function pending a total review of this program. In support of this effort, I have assigned a senior FSO auditor to work with the Bureau to assist in this task. Here again one of the conditions we have frequently found to exist is a very thin level of direct Agency oversight and monitoring of these programs at the receipt and delivery points.

III.

Overall project implementation can and does suffer whenever the host country contracting method falters, when Agency management and administrative officers are unable to provide a reasonable level of direct oversight and monitoring, when cash management or project commodity procurement problems begin to build. Once these kinds of problems appear they begin to fester and worsen. Unless they are confronted early by AID management preferably at the country level, and corrected promptly the project goals become impossible to reach and failure becomes inevitable.

The Subcommittee may well ask why it is that the kinds of implemenatation problems at the delivery end of our foreign aid are so persistent.

There are three points I would raise with you that I think bear upon this question. First is the one I have referred to here and in earlier testimony before this Committee -- the difficult LDC environment in which our programs must go forward. This is a given and a basis of our aid presence in the first place. If something can go wrong, something will. Our systems of operations, administration and control must be deliberately designed to cushion the inevitable adverse impacts of this condition. IG reporting reflects a tendency by the Agency to make overly optimistic assessments of local capabilities. This often leads to overly ambitious projects too complex in make-up and eventually unsupportable by the host country.

Second, the nature of our AID program has changed sharply over the last decade. The kinds of programs we are involved with now, programs designed to impact quickly on the largest possible number of the poor, are, I believe, much more management intensive in many ways than the older, large capital development type of aid project. They are harder to design, the sociological and cultural margins of error are harder to assess, benchmarks and accomplishments are difficult to establish, measure or evaluate. There are so many of these projects in water, health, agriculture, education, institution building, women in development, forestry, research and so on that we are stretched very thin as an Agency.

That raises my third point which has to do with the managerial absorptive capability of our Agency. Our management and supporting administrative people, offices and functions are very heavily burdened. Let me give you some idea of the numbers, and in doing so let me say that I know numbers alone don't prove anything. Here, I think, they may point in the direction of a management and administrative system at or near full capacity.

Drawing from one one of the basic data the Inspector General uses for audit planning purposes, I refer to one of our Washington Central Bureaus. The Science and Technology Bureau, is presently showing more than 120 active project for FY 1984 with a little less than a quarter of a billion dollars obligated in their support. This includes about 20 projects in the population area, 47 in the health sector, 9 in energy, 10 in nutrition, 7 in education and so on. That same Bureau has other significant duties and functions in addition to administering this portfolio of active projects. This Bureau is authorized staffing of 245 people this year, a figure about 20% less than past three years ago.

In Egypt in 1984 we will have, as best I can determine, about 75 to 80 active aid projects. In addition, that Mission has a large CIP program as well as a substantial PL 480 program. The annual budget for all of this is running as you know at about three quarters of a billion dollars. The cumulative totals of our Egypt program are much larger. The Mission's direct hire American staff numbers about 120.

In AID's programs in Central America we have moved from an annual budget level of about $300 million three years ago to this year's level of a bit less than three quarters of a billion dollars. The number of active projects in the region will be about 200 compared to about three fourths that number three years ago. AID's direct hire American staff in these countries will be about 140 this year, an increase of 20 or 25 over the number authorized three years ago when the program was roughly 40 percent its current level in dollars and substantially less in numbers of active projects.

In summary, Mr. Chairman, I have reported to you that the Agency for International Development at the Washington management level is aggressively attacking operational and administrative problems which have adversely impacted upon the effectiveness and efficiency of the foreign aid program for a long time. I have told the Subcommittee that at the delivery end of the program, my reports are not yet, as of the past year, reflecting substantial improvements in some of these traditional problem areas. Finally, I have raised a question of growing concern to me over our continuing ability to carry effectively the managerial burden associated with a complex, diverse, globally spread foreign aid program of many discrete parts and pieces. Each must be administered in a way that conforms to variously the foreign aid legislation, the guidance of our oversight and appropriations committees, OMB, Agency, Treasury, Department of Agriculture and many other regulations and directives. It is a tough task.

This concludes my statement Mr. Chairman.

DELIVERY PROBLEMS OF FOREIGN AID

Senator KASTEN. General Beckington, I would like you to elaborate on the delivery end of foreign aid that you talked about in your statement. You indicate that you believe that AID in Washington has made efforts to solve management and administrative problems and, if I remember correctly, in past years you have pretty much said that to us as well—that the AID people in Washington have been making significant efforts and, in fact, have suggested that some of these problems are being solved.

But the delivery end of the foreign aid situation seems to be not changing significantly and maybe even getting worse as more and more dollars, as you suggested in another part of your statement, are going in. Would you please explain?

Do you mean that the same stubborn problems at the delivery end of foreign aid that you have testified to in former years are simply getting no attention? Do you mean that the recipient governments are not cooperating at all, or are you pinpointing that there is a lack of supervision of AID personnel or lack of clear guidelines as to how they are supposed to administer their programs?

General BECKINGTON. I think, Mr. Chairman, the problem is probably tied to the third point in my statement today. I think that the size and complexity of the foreign aid program may be at the point where we are in danger in some areas of just not being able to cope with it in an efficient fashion.

In my judgment, foreign aid projects are management intensive. This, I think, comes from the LDC environment in which they are obviously carried out. The complexity of some of our projects I think adds to the need for intensive management if the projects are to have a good chance of being carried out successfully.

I think there is a gap between the real concern in Washington over various management type problems that affect our efficiency and effectiveness and the ability of some of our in-country missions around the world, and the ability of host country entities, to deal with the requirements, the managerial and the administrative and technical requirements, of many of these projects. I think we may be outstripping our capabilities in a number of instances.

I doubt that it is a lack of will, Mr. Chairman, certainly on the part of our Agency employees by and large.

BUREAUCRACY IN FIELD OFFICE

Senator KASTEN. I am not familiar with a whole lot of programs in terms of the personnel, and I have not been to a large number of these lesser developed countries, but just let me take a country that I know a little something about—Egypt.

In that country we have more people at the AID office than we have at our embassy, and every time I go over there I have comments from our own people who are talking to me on an off-the-record basis, as well as numerous comments from the Egyptians, saying that our problem is bureaucracy.

We are so bottled up in all these different kinds of programs and everybody is checking off on everybody else, and we are getting all wrapped up in institutionalizing, and at the same time gives credit for starting projects, not for completing them.

In other words, you develop the idea and you get the thing bubbling along, and that is where the star is put next to your name. If you simply took something that was going and did it right, everybody just kind of looks the other way. So the emphasis is on developing new ideas, and not necessarily carrying through. Maybe you are going to be lucky and get transferred out before your program gets into those last couple of areas.

Are you saying you do not have enough people out there, or that the people are not being managed properly, or that they do not know what their goals are? I know in Egypt we have got more than enough people.

General BECKINGTON. I think in many cases we could use more people in some of the countries in which we operate. I am not here to suggest or ask for more people, however, because I am really not authorized to. It would put me outside the President's budget.

THE NEED FOR HANDS-ON MANAGEMENT

The complaint that we are better at planning and designing than we are at implementation is a very common complaint, and I am not surprised, Mr. Chairman, to hear that you have heard this. And that is, I think, the whole point of the current effort to improve implementation.

Project assistance I think is very much a hands-on type of thing. We have to literally manage it. We have to oversee it. We have to monitor it. We have to go out on a fairly regular basis and count things and look at things and kick things and make sure that what we intend and what the host government intends is actually in fact being put into place and reasonably on time and reasonably on budget.

If we have an in-country AID mission that has to plan ahead for next year's program and the outyears and has to at the same time manage the ongoing program—and by manage I really mean manage; they have got to be on the scene—and at the same time it has to respond constantly, as they all do, to the requirements of Washington headquarters, they have an awful lot to do.

It has been my impression that the area there that tends to suffer is the management area. If there is not enough time to do all of these things, it is the time needed to go out into the field to look at these projects on some kind of a regular basis, whether that is weekly, monthly, quarterly, whatever it requires, that tends to be the area that is slighted.

PROBLEMS AT DELIVERY END OF FOREIGN AID

Senator KASTEN. So we could better understand, could you give me, let us say, two or three specific examples of the same stubborn problems at the delivery end of foreign aid that you have testified to in prior years?

I guess you are suggesting that you in different ways, either through a report or a letter or suggestion, said that we ought to do A, B, and C. You come back a year later and not even A has been done, and they have forgotten about B and C. So you once more say you ought to do A, B, and C. And now we are back the next year.

Could you give me one or two specific examples?

General BECKINGTON. One example I would give you, Mr. Chairman, is the host country contracting area. I am still receiving reports that indicate to me that we have not adequately or correctly or carefully assessed the capability of a host country in contracting for and carrying out a specific contract.

Senator KASTEN. Can you give me a couple of specific countries?

General BECKINGTON. Guinea in Africa was the location of a very unfortunate report in the past 12 months.

Senator KASTEN. We were not sure that they had the ability to carry out the contract, but nevertheless the contract was awarded?

General BECKINGTON. That is right.

Senator KASTEN. We did not have adequate monitoring, auditing or backup?

General BECKINGTON. The precise point I am referring to here is the very inception, the initial planning process, where a decision is made as to whether we will have an AID-direct contract or whether we will use the host country contracting method, which has been the source of a great many problems.

And in that particular case we elected to permit the host country to carry out the contracting process and the supervision of construction and so on associated with that project, which, as I recall, was an agricultural school and research project.

The host country was simply incapable of doing it. That was a case where I think even a general review at the time would have suggested that we were at great risk in lodging this sort of responsibility in the host government.

Another area where we continued to find problems during the past year are various aspects of cash management. We have been providing advances to contractors substantially in excess of the amounts of money they need for the 30- to 90-day allowable period.

We also continue to find problems in delivery of Public Law 480 commodities under title II.

Senator KASTEN. Could you give me a couple of specific examples of countries in which we have advanced contractors money that was in excess of what their immediate needs would be—any you can think of offhand?

General BECKINGTON. Egypt is one country very specifically that comes to mind where we have had that problem. I can provide them for the record, Mr. Chairman, because there are a great many.

LOGISTICS AND ACCOUNTABILITY PROBLEMS

Senator KASTEN. And last, you said that the last question was Public Law 480 in terms of the delivery. Once they are delivered we do not know what happens to the product, or what is your accountability problem there?

General BECKINGTON. Well, the problems there center around logistics and accountability. Once the food commodities are delivered to an arrival port, from that point on we invariably find difficult problems of accountability and distribution. Some of these, I think, are very understandable.

The transportation systems in these countries and the sheer size of some of the programs and the multitude of distribution points make it a logistical problem that requires again a great deal of management, hands-on management, both by the mission in-country and by the PVO's that are the cooperating sponsors.

EXAMPLES OF IMPLEMENTATION PROBLEMS

Senator KASTEN. If you could for the record—it might be helpful to keep these same three categories and provide us with half a dozen or so countries or projects or sections of the world, where there are some examples of people who, in fact, were not capable of managing the contracts, but yet the contracts were awarded, of cash that was expended that was over and beyond the immediate needs, and also the handling of Public Law 480 commodities. That would be helpful to us.

[The information follows:]

EXAMPLES OF TYPICAL IMPLEMENTATION PROBLEMS

HOST COUNTRY CONTRACTING

In Egypt in 1983 in an agricultural development program the host country failed or was unable to insure that its AID-financed contractor maintained even minimally adequate fiscal controls or general supervision over the conduct of the program.

In Tanzania in a 1983 report an AID-financed host country agricultural research project failed to meet its planned objectives because of a too ambitious project design, poor contractor performance, lack of host government support and direction, and inadequate AID oversight.

In Senegal in a 1983 report we found a regional development project after 5 years of effort and $7.8 million of expenditures had achieved little because of faulty design, over ambitious estimates of host country capabilities, and serious problems in the procurement and delivery of project commodities.

PUBLIC LAW 480 FOOD PROGRAMS

In a 1983 report on a Haiti program we found almost a complete lack of records on commodity usage and erroneous reporting. In one period of time in one warehouse associated with the program we identified a loss of foodstuffs valued at over $500,000; in a second warehouse 90 tons of food was either stolen or spoiled in a 1-year period. We identified lack of qualified staff and thus effective supervision as the proximate cause of these problems.

A 1983 report on a Philippines program found examples of lax accountability, $100,000 proceeds from sale of unfit commodities not remitted, outstanding claims for about $500,000 in food losses not followed up, and inadequate recordkeeping and commodity control.

CASH MANAGEMENT

A 1983 report reviewed management of cash advances to contractors and grantees in six overseas missions. We found in an overall sample of advances totaling $24.2 million that almost one-half ($11 million or 45.5 percent) had been advanced prior to need as defined in Treasury cash management regulations. Substantial unnecessary interest costs were thus incurred—mission controllers were not enforcing these regulations. The actual numbers reviewed and established if extrapolated to AID worldwide suggest a substantial, unnecessary interest cost to the U.S. Government.

EFFECT OF AUDITS

Senator KASTEN. I think the key here and the fundamental question is how your work relates to the overall program of AID and to try to figure out to what degree your audits are affecting programmatic management decisions.

You are telling us that in fact you have been reasonably successful with recommendations here and not particularly successful with some in the delivery end.

Can you tell us whether you have any specific suggestions, perhaps even in the way of legislation, which would make the decisionmakers at AID more aware of the problems that you uncover? In other words, are there some tools that we could provide to you in our bill or in the authorization bill which would force them to pay more heed to some of the suggestions that you and your auditors or your inspectors are suggesting?

THE IMPACT OF AUDIT

General BECKINGTON. I think that my audit reports are having a real impact on the management side. I know that the line between management and program sometimes is blurred, Mr. Chairman, but I think on the management side that the audit reports are having a real impact. I think they have played a part, a significant part, in the efforts underway now within the Agency to deal with the practical problems associated with this host country contracting method.

I think they clearly have played a part in the Agency's efforts to improve and tighten our cash management procedures. I think very clearly they have played a part in the concern within the Agency over our programs in the Sahelian countries. They have also played a real part in the efforts now underway to deal with a lot of the problems impacting upon the Public Law 480 program.

On the program side, if we are talking about program content and program makeup, I have not seen the same impact from my audit reports. I am referring here to the fact that it seems to me on the record available to me up to now—recognizing there is a time lag with audits—that we still have a propensity for designing fairly complex projects that are very management-intensive and very difficult for us on the AID side to oversee, and they become very difficult for the host country many times to carry out.

On the question of legislation, Mr. Chairman, no, sir, I do not know of any way that legislation per se could be helpful in this regard.

Senator KASTEN. Well, keep working on it and keep thinking about it. We are anxious to work with you.

I have some additional questions having to do specifically with your ability to work with the package that is now in the process of going through the Congress, the Kissinger Commission Report on Central America. We are in the process of adding a significant amount of money into that part of the world and there are some questions that we will ask you as to whether or not you think we have got adequate resources to deal with the inspection side of that.

SUBMITTED QUESTIONS

But because I have got some time problems, and I know others in the room have some time problems, I am going to ask that these questions be submitted for the record, and you can provide us with that information.

But I would like to thank you very much for your testimony here today. We look forward to working with you.

But, General, we thank you very much for your work.

General BECKINGTON. Thank you very much, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

AUDIT OF AID PROGRAMS IN CENTRAL AMERICA

Senator Kasten: Should Congress approve the economic assistance package being recommended for Central America, which would increase U.S. bilateral assistance to the area over the next five years by substantial amounts, do you have adequate resources to cover that increased program?

If not, what additional resources would you need?

General Beckington: No, our audit oversight capability for programs already in place in Central America permits only a token level of audit over our foreign aid efforts in those several countries. Our economic aid level to that region has escalated sharply over the past two or three years. Any additional increases over the next five years will only exacerbate an already serious auditing shortfall. A reasonable, but still austere, level of audit oversight over the currently approved programs plus any increased aid flow that may be approved will require about a doubling of the present staffing of the Regional IG Offices for the Latin American-Caribbean area. While your question refers to economic assistance in Central America I must be mindful that our Caribbean aid levels have also increased.

A.I.D. STAFFING IN EL SALVADOR

Senator Kasten: You have recently done some work in El Salvador, as has the General Accounting Office and other auditing agencies.

Can you give us a judgment on adequacy of personnel in El Salvador?

General Beckington: In my judgment, based upon the limited audit work we have done in El Salvador, the A.I.D. Mission there is not adequately staffed to provide the close control, oversight and management the current programs and conditions there require.

IMPACT OF AUDIT REPORTS ON A.I.D. PROMOTIONS

Senator Kasten: Another problem you and I have discussed before relates to individual performance and how that relates to promotions. It has seemed to me in the past that there is little difference in one's promotion path whether or not he does a superior or just a fair job.

Is there any improvement in this area?

General Beckington: I am aware that the contents of IG audit reports are beginning to be taken into account in a number of personnel related actions such as assignments and monetary rewards. I am not able to comment on the impact of audit reports on the promotion process.

IDENTIFICATION OF OFFICES OR OFFICERS IN AUDIT REPORTS

Senator Kasten: When you do an audit report and find deficiencies, why not indicate in that report, perhaps just by title, who was in charge of the program audited when it went astray?

General Beckington: It is possible in certain circumstances. In the A.I.D. context however, where projects generally extend over a period of years, combined with the necessary overseas rotation cycle fixing precise responsibility is often very difficult.

ESF FUNDED PROGRAMING IN THE PHILIPPINES

Senator Kasten: As you know, this Subcommittee took an interest in your audit report on the way our ESF assistance in the Philippines was being managed.

Are you satisfied that A.I.D. is now on the right track with respect to that program, at least in the areas you have examined?

General Beckington: It is too soon after the discussion and decisions following my report on the ESF schools project, to which your question refers, for me to say. I am keenly aware of the Subcommittee's concern over the accountability for ESF funded economic aid to the Philippines. With this in mind I have: (1) directed the Regional IG for Audit, who is based in Manila, to pay close and particular attention to the conduct of ESF funded aid activities in the country including their administration, accountability and management, (2) I have requested that the Assistant Administrator for Asia here in Washington keep me adequately informed of any contemplated changes in the program that could affect accountability.

THE SUBCOMMITTEE'S CONTINUING CONCERN OVER SAHEL PROGRAMS

Senator Kasten: The Sahel program has been nearly a yearly concern with this Subcommittee, and I note that you have issued at least two and perhaps more audit reports since last year showing continuing problems.

Can you give us an update on the efforts to straighten those problems out?

General Beckington: The problems with our Sahel program remain and they are serious as recent audit reports continue to disclose. What has changed, Mr. Chairman, is the fact that the Agency's Africa Bureau, its Sahel Missions and the Comptroller and Management offices of the Agency are making a concerted and aggressive effort to deal with the problems. I think it is reasonable for me as the Inspector General and for your Subcommittee to anticipate gradual improvement in the administration, management and accountability of our Sahel programs. I say gradual because the conditions under which our Sahel aid programs are carried forward are extremely difficult, and I do not believe there are any quick fixes.

A.I.D.'s USE OF CONTRACT AUDITORS

Senator Kasten: What is the status of a suggestion I believe A.I.D. management has made that you make more use of contract auditors?

When are such auditors an advantage, when are they a disadvantage?

General Beckington: We are close to the award of contracts to three U.S. accounting firms to conduct financial audits of A.I.D. funded foreign aid projects and programs both overseas and at home. The contract award process is currently underway. I anticipate that by summer the contracts will be awarded and in place.

The advantages of this approach are that it will provide an immediate reinforcement of the IG's own resources. It will permit A.I.D. Missions and Bureaus to draw upon these contracts for financial audits of aid programs in most parts of the world, and to receive these services on a relatively timely basis. Currently such services are frequently not easily available to Mission Directors and, indeed, I have had to refuse very legitimate requests from time to time.

The disadvantages, at least initially, center around that fact that in the Agency we must learn, both the IG staff and management, how to put this new resource to its best use; the service will probably be fairly expensive particularly in the overseas environment; the quality and thus the utility of the audit work done must be closely monitored if we are to realize its full benefits. This last requirement is the responsibility of the Inspector General under the provisions of the IG Act of 1978, and will require me to devote adequate staff resources to the task. The experience of our government's domestic departments with some years of use of non-federal auditors has established that this task of quality control requires a fairly heavy investment of IG resources. I am concerned that in the international environment it may prove to be even more demanding a responsibility.

GENERAL ACCOUNTING OFFICE

STATEMENT OF FRANK C. CONAHAN, DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

ESF AND AID ADMINISTRATION AND MANAGEMENT

Senator KASTEN. The next witness is Mr. Conahan, if you will please come forward.

Mr. Conahan, please go forward with a brief overview of your statement. We are happy to have you with us today.

Mr. CONAHAN. Thank you, Mr. Chairman. My statement covers a host of assignments that we have conducted during the past year, so perhaps I can briefly comment on the work we have completed concerning the Economic Support Fund (ESF) and AID administration and management. I will go through this very quickly.

During the past year we have issued several reports concerning the Economic Support Fund. We reported that the Economic Support Fund programs are developed on a country-specific basis, that they are not governed by any overall formula for determining their composition, and that because few restrictions govern the Fund's uses or eligibility of a country to receive aid, ESF levels may be set higher than economic needs alone may warrant.

In our report on ESF for the Philippines, we pointed to the need to clarify such longstanding issues as the type of ESF assistance to be provided, the purposes and uses of the assistance, and the degree of administrative control to be maintained by AID.

In April 1983 we reported on the cash transfer program to Jamaica. We recently reported on the cash transfer programs to Central America, where we showed that AID's financial control cease once funds are deposited in recipient central banks and comingled with other sources of funds.

I will briefly cover several aspects of AID administration and management. In response to the growing congressional interest in the size and management of the commodity import programs, we recently evaluated the extent of AID's program and financial controls over them.

We reported that AID did not adequately plan procurements and delivery of the commodities; adequate internal controls to assure compliance with existing eligibility and price regulations and requirements were not always used; and AID's monitoring of the implementation of the programs and of the local currency generations was not adequate.

Another case of concern to us relates to the recurring cost of project operation maintenance. We found a number of projects deteriorating long before they should in the absence of routine operation and maintenance. Consequently, there was a need there for rehabilitation.

EFFORTS IN AFRICA

In closing, I would like to touch on development efforts in Africa. As you know, Mr. Chairman, there is a two-part program to provide assistance to Africa. The short-term program will provide $90 million in emergency food aid and the longer-term program will involve AID's Economic Policy Initiative for Africa. In the fall of last year we reported on AID's efforts to reform agricultural policies in Sub-Sahara Africa. At the Washington level we felt AID had done a pretty good job in developing policy and guidance. However, at the country level we felt AID had a long way to go.

AID agreed with our observations on this particular effort, as well as in most of our efforts. As a matter of fact, we have sensed an overall AID commitment to improve the management of its programs, even though, as my overall statement would suggest, some of the problems, particularly at the field level, continued to persist.

That concludes my summary, Mr. Chairman.

[The prepared statement of Mr. Conahan follows:]

PREPARED STATEMENT OF FRANK C. CONAHAN

Director, National Security and International Affairs Division

GAO Reviews of Foreign Economic Assistance Programs

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to provide an overview of our recently completed and on-going work on U.S. economic assistance programs.

Our work has emphasized concerns with specific aspects of the overall program and/or selected regions or countries. As in the past, we continue to address those areas of congressional interest in which we believe management and administrative improvements can be made and implementation of our recommendations can result in program improvements, reduce costs, and provide better opportunities for congressional oversight.

THE ECONOMIC SUPPORT FUND

A major trend in the U.S. economic assistance program in recent years has been the increased use of the Economic Support Fund (ESF). While the funding levels for other forms of bilateral aid have declined or remained stable since fiscal year 1981, the ESF program has increased by over 55 percent, to a proposed level of $3.4 billion for fiscal year 1985. The number of countries receiving bilateral ESF assistance has increased at an even greater rate, from 20 in fiscal year 1981 to a proposed 37 in fiscal year 1985. Approximately half of the Fund is allocated to Israel and Egypt. Although the Fund is used to promote economic or political stability in countries where the United States has special security or foreign policy interests, Congress has required that ESF assistance be directed, to the maximum extent possible, toward basic human needs and developmental goals. ESF assistance is used for balance-of-payments support and commodity import programs and to finance infrastructure and other capital projects.

During the past year we issued three reports on ESF activities and one on AID management of commodity import programs and provided Congress with information on ESF cash transfers in Central America. In April 1983, we reported on the political and economic factors influencing ESF funding levels and the structuring of individual country programs. We reported that ESF programs are developed on a country-specific basis, that they are not governed by any over-all formula for determining their composition and that, because few restrictions govern the Fund's uses or the eligibility of a country to receive aid, ESF levels may be set higher than economic needs alone may warrant in order to communicate political messages. We also reported that, unlike Development Assistance funding, which uses per capita income as a primary criteria for determining whether the assistance will be provided as a grant or a loan, decisions on ESF assistance involve security concerns as well as per capita income.

One of the key foreign policy objectives supported by the ESF program is to ensure continued U.S. access to military facilities in foreign countries. For example, the Philippines received $200 million in ESF assistance between fiscal years 1980 and 1984 and was the subject of our January 1984 report. We examined the progress and constraints encountered in implementing the ESF program over the past 5 years and the implications of current program experience for future ESF assistance. We reported on the need for the United States and Philippine governments to clarify such long-standing issues as the types of ESF assistance to be provided, the purposes and uses of the assistance, and the degree of administrative control to be maintained by AID.

ESF, as a highly flexible form of assistance, is often used to help recipients meet short-term economic needs, such as balance-of-payment and budget deficits. This type of aid is used to assist recipients in importing all types of goods and services. Cash transfers are associated with a recipient country pledging to allocate foreign exchange to imports of eligible U.S. goods and services in an amount at least equivalent to the cash transfer.

In April 1983, we reported on the $188 million in balance-of-payments assistance provided to Jamaica between 1981 and 1982. The majority of this assistance was in the form of cash transfers and was intended to stimulate economic growth by providing the foreign exchange necessary to purchase needed U.S. imports. We concluded that AID's procedures for monitoring Jamaican use of the foreign exchange assistance were limited. We believed that AID could encourage Jamaica to increase imports from the United States and recommended that AID implement a system for monitoring imports. We also suggested a monitoring process that could be implemented by AID.

The Jamaican report also discussed the use of local currencies for development purposes. We reported that, although AID requires Jamaica to provide local currency equivalent to the value of U.S. balance-of-payments assistance for agreed upon development projects and purposes, AID played a relatively passive role in the selection of these projects. Furthermore, AID relied on the government of Jamaica to select up to 90 percent of the local currency projects and performed no on-site monitoring of the projects to assure that funds were provided for agreed upon purposes or to determine whether projects were progressing adequately. We recommended that AID consider a more active role in identifying and monitoring projects.

The concerns associated with monitoring ESF cash transfers are not unique to the Jamaican program. Our review of economic assistance to Central America has shown that AID's financial controls cease once funds are deposited in a recipient's central bank and commingled with other sources of funds. Since cash transfers are not directly linked to the procurement of specific U.S. goods and services, the recipient is able to import any type of commodity from any country. GAO has not taken a position that controls are inadequate; it has merely raised policy questions on which Congress and the administration need to reach an understanding; i.e., how much control is practical and what should be the expectations attributed to cash transfers.

AID IN COMPARISON WITH OTHER DONORS

Over the past 20 years, one of the clearest trends in international development assistance is the increasing number of major donors to the developing world. Although the United States remains a leading donor country, its share of the world's total development assistance has steadily declined, from about 60 percent of the total aid provided in the 1960s to about 22 percent today. This decrease is partially due to the growth of donor programs in other countries and the emergence of such new donors as members of the Organization of Petroleum Exporting Countries (OPEC) and multilateral agencies.

In response to this growth of other donor programs, we compared the approach used by the United States with those of five major Western nations--Canada, France, Sweden, the United Kingdom, and West Germany. The resulting report was issued last year and provided an analysis of three management issues confronting all donor assistance organizations: (1) the donor's provision of different types of aid, (2) the donor's organizational structure, and (3) the donor's administrative procedures and financial controls. We reported that AID differs from the primary aid agencies of the other donors studied in a number of ways. Specifically, AID has the most extensive program in terms of dollars allocated, number of personnel, and extent of overseas field offices. AID is generally more accountable to legislative controls, more sensitive to domestic public opinion, and focuses its assistance on the rural areas where the largest number of poor reside.

Although this report contained no recommendations, it discussed the implications of applying the foreign aid management approaches used by the other donors to the AID program, particularly the dilemmas and trade-offs that would accompany such an action. The report has been used extensively by AID, others in the development community, and the recently concluded Commission on Security and Economic Assistance.

AID ADMINISTRATION AND MANAGEMENT

Commodity Import Programs

AID spends half a billion dollars a year for Commodity Import Programs (CIPs), which provide developing countries with dollar exchange to import various commodities to help meet resource shortfalls. Additionally, it provides local currency from the sale of these commodities. In response to the growing congressional interest in the size and management of these programs, we recently evaluated the extent of AID's program and financial controls over CIPs. We reported that AID had not always adequately planned procurements and delivery of the commodities. Adequate internal controls to assure compliance with existing eligibility and price regulations and requirements were not always used. AID's monitoring of the implementation of CIPs and of local currency generation was not adequate. Accordingly, we recommended that the Administrator of AID:

--Establish procedures requiring more specific pre-implementation CIP planning.

--Initiate action to improve controls, including increasing audit coverage.

--Issue specific guidance on monitoring CIP implementation at the AID mission level.

--Issue guidelines on accounting for the generation of local currency proceeds resulting from the sale of AID-financed commodities and on monitoring the use of such proceeds.

--Require that CIP assistance be systematically evaluated and develop specific g[illegible] for those performing such evaluations.

AID agreed with our recommendations and has either initiated corrective action or informed us of plans to issue appropriate guidance to officials involved in these activities.

Recurring costs of project operation and maintenance

Proper operation and maintenance is critical to the long-term success of donor-assisted development projects. Low recipient and donor priority and inadequate financial support for the recurrent costs associated with proper operation and maintenance have adversely affected many well-intentioned development efforts. Since 1975, we have issued nine reports which have discussed the lack of host-country ability and/or willingness to maintain AID-funded projects after external assistance ends and thus becoming dependent on AID for project success. The topics of these reports varied widely and included housing, health care, water supply projects, training, and disaster assistance. Our reports during the past year on donor-assisted irrigation systems and AID's rural potable water and sanitation program again highlight the severity of the problem.

The United States, directly through AID and indirectly through the World Bank and Asian Development Bank, has invested billions of dollars in irrigation systems in Asia. These systems represent one of AID's largest investments in the region, as the Agency plans to spend as much as $750 million in Asian irrigation development in the next 5 years. Poor operation and maintenance practices, however, are seriously limiting the efficiency of those systems already in place. Furthermore, the rapid deterioration of irrigation systems represents a special dilemma for donors who must justify additional investments in new systems during the next decade. There is clearly a question of the absorptive capacity of the developing countries in the irrigation sector, in terms of recurrent budget capability and institutional expertise. Inherent in these issues is the extent to which the United States should continue to finance new irrigation activities in the face of inadequate operation and maintenance and whether it should resolve to provide such assistance only if recipient countries show the willingness, commitment, and capability to effectively operate and maintain such systems.

During 1983 we assessed the operation and maintenance of U.S.-financed irrigation systems in Indonesia, Sri Lanka, and Thailand. In August 1983, we reported on these problems and pointed out that effective operation and maintenance requires a commitment by the recipient as well as the donor. We found several problems affecting the performance of irrigation systems in each country visited, which raised questions concerning the level of capability and commitment that actually exists.

We recommended that AID require a recurrent cost plan that identifies operation and maintenance requirements and funding sources for each project. This will necessitate a willingness on the part of AID, the recipient, and other aid donors to give sufficient attention to the long-term costs and benefits associated with efficiently operated and maintained irrigation systems. We also recommended that AID adopt stronger project design and construction criteria to reduce recurrent costs. AID substantially agreed with our findings and recommendations and is pursuing many of them through its policies and projects. AID has since proposed a project to begin in fiscal year 1985 that will address the operation and maintenance problems of small-scale irrigation systems in Indonesia. This project will reportedly take 8 years to implement and will benefit approximately 2.5 million farmers.

Unsafe water and inadequate sanitation spread fatal and debilitating diseases which affect millions of lives in the developing world. The United States has been concerned with this problem for over 40 years. Between fiscal years 1978 and

1982, AID provided over one billion dollars in assistance for expanding access to improved water and better sanitation. As we reported in February 1984, the Agency's rural water and sanitation program is experiencing difficulty in delivering a full range of intended facilities and services and implementing operation and maintenance activities.

Many factors affect the timely delivery of water and sanitation services. According to the World Bank, low host-country priority, inadequate financial support, and cumbersome logistics are among the problems contributing to the slow progress. We found these problems in three of the five countries we visited during our review; most prevalent were competing host-country priorities, which may result in inadequate institutions or personnel to implement the programs and install the facilities. As a result, not all the planned benefits reach the target populations. We did find, however, that AID projects in the five countries visited have been successful when there has been host-country commitment and participation. We made several recommendations to the Administrator of AID for improving implementation, ensuring that the projects receive proper upkeep, and identifying the improvements resulting from this type of assistance. AID has taken or planned actions which should implement our recommendations.

AID credit programs

During the past year, we reviewed AID's Productive Credit and Housing Guaranty programs, which provide credit guaranties to developing countries. The Productive Credit Guaranty program provides partial guaranties to private credit institutions that lend to small entrepreneurs engaged in credit and self-help development projects. In November 1983, we reported that the program has been at a virtual standstill since 1981 in several countries due to economic recessions in the recipient countries and problems with program management. The poor financial reporting by the recipient countries' central banks, and in some cases by the AID missions, had led to confusion over the extent of AID's financial liability under the program. We recommended several measures which we believe can be taken to determine AID's actual program liability and improve program management.

A report to be issued soon on AID's management of the Housing Guaranty program discusses AID's use of the program in an environment of high external debt, balance-of-payments difficulties, and other economic problems in recipient countries. Worldwide economic conditions have adversely affected program operations. Heavy debt levels and the international recession have undermined economic stability in many countries. Inflation and currency devaluations have undermined shelter finance systems and put many shelter solutions beyond the reach of target populations. Several countries have been consistently in arrears in their loan repayments. Host-countries' debt reschedulings of loans threatens the liquidity of the program's reserve fund. The U.S. government's contingent liability for Housing Guaranty loans exceeds $1 billion; the reserve fund to cover this liability is now down to approximately $20 million.

In our report we intend to recommend that AID take steps to stem further deterioration in the level of the reserve fund and to minimize the U.S. government's contingent liability exposure. We are also concerned that no Housing Guaranty loans be exempted from any counry's debt rescheduling if such reschedulings include other AID loans. We also believe that a thorough country risk analysis should be prepared for each proposed Housing Guaranty loan.

DEVELOPMENT EFFORTS IN AFRICA

As you know Mr. Chairman, Africa is currently experiencing one of the most severe droughts in that continent's history. In response, the United States has initiated a two-part program to assist famine-threatened areas. In the short run, the administration has proposed providing $90 million in emergency food aid. The longer term will be addressed by the proposed

Economic Policy Initiative for Africa, which will provide funds to nations which have reformed or are in the process of reforming major food production and marketing policies.

In September 1983, we reported on AID's efforts to reform host-government agricultural policies in Sub-Sahara Africa. At the Washington level, AID had extensively promoted host-country policy reform through policy papers, country strategy guidance, and congressional testimony. However, at the country level, AID often does not have an ongoing viable program in place which recognizes the inherent difficulties in realizing policy reform and the potential long-term effort involved. In addition, AID missions in Sub-Sahara Africa had generally not taken substantial actions to promote policy reform, even though these policies contribute to declining food production. Planned and ongoing reform efforts were minimal in many countries. We recommended that AID missions identify developing country agricultural policies which inhibit food production and distribution and develop plans to address them. We also recommended that AID appropriately reward missions and staffs for their policy reform efforts.

AID agreed with our observations and recomendations and has asked African missions to develop 5-year policy reform strategies and action plans.

Our work in process includes reviews of the Sahel Development and Public Law 480, Title III (Food for Development) Programs. Since 1981, rising donor commitments have translated into the operation of 700 donor-sponsored projects in the Sahel. This expansion of economic assistance and the proliferation of donors has imposed heavy burdens on the limited Sahelian governments administrative capabilities and may be weakening rather than fortifying them. Our review will examine the extent and impact of this problem and explore possible alternatives.

Developing countries in all regions face financial management weaknesses which reduce the performance of their development programs. The lack of host-country management capability is most serious in Africa. Training programs to improve accounting, budgeting, and auditing systems in developing countries will require the major donors to address financial management assistance as a distinct factor in the development process. We have in process a review designed to identify how the major donors can systematically define such training needs and provide related assistance.

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As in the past, questions surround the current U.S. bilateral assistance program and its future direction. Our office will continue to review issues of congressional interest to assist it in considering the direction of the U.S. bilateral assistance effort.

This concludes my prepared remarks, Mr. Chairman. We will be pleased to answer any questions you may have.

USE OF GAO REPORTS

Senator KASTEN. I would like to start by just asking you a question similar to one I asked General Beckington on how we—"we" being the Congress and specifically the subcommittee—can best use your reports in order to effect management and programmatic improvements.

We try to use your reports in our consideration of legislation on foreign assistance all the way from the hearing stage through the markups. The number of things that the two of you would identify we try to work into questions which are submitted either for the record or asked of the witnesses. We are obviously limited in what we can do because of time and staff constraints.

Do you feel that AID and the State Department take your criticism seriously? Do you feel that they try to use them as tools for improvement, or do you feel that they get pushed aside until one of us gets hooked onto one of them and gets it in the newspaper or is able to one way or another bring it to a different level of public attention?

And what kind of mechanism would you suggest, again perhaps by way of legislation, so that the managers of these programs in the field that you are making constructive criticism of could more effectively use your findings? I know that is kind of a broad question, but I just wanted to cover the whole area all at once.

I get the sense that an awful lot of what you do does not get a lot of attention unless one of the people on the Hill decides to try to kind of ride with it a little bit, and that is not the way it ought to be.

Mr. CONAHAN. I think, Mr. Chairman, that it is a mixed bag and there are some things that the Agency can come to grips with more easily than others. The previous witness talked in terms of seeing better responses to his recommendations at the administrative level and particularly at the headquarters level rather than at the program level or out in the field at the delivery level. I would make that same generalization. Furthermore, I believe there are some things the committee and the subcommittee can do short of legislation.

ECONOMIC POLICY INITIATIVE FOR AFRICA

For example, in the work that we did concerning agricultural policies in Africa we noted, as I mentioned a moment ago, that there were some pretty good policies and guidance at the Washington level. However, the individual AID missions had not done very much in developing a plan of attack or procedures to work with the recipient governments to get them to implement the types of reforms that are necessary for some of these agricultural efforts to work.

AID has now come forward, probably quite independent of the GAO recommendation, with a proposal for an Economic Policy Initiative in these African countries. My understanding is that funds will be made available to countries which either are undertaking specific reforms or show some signs that they will undertake specific reforms in the agricultural area.

Now it would seem to me that this committee, either independently or through us, could, after a period of time, really see how well AID has done at the mission level in implementing this program; if it is approved in the first place. It seems to me that this is the type of program we would want to evaluate in the future. Beyond that I think we need to keep pressure on AID and the recipient countries as this is the type of program that one finds the same kind of problems recurring time and time again.

Senator KASTEN. Well, I am concerned about the answer you just gave. You essentially said we have got a lot of programs at the present time that might not be managed very well at the country level so, therefore, we ought to put a new program in place that would maybe reward people if they improve their management of the programs that now exist.

It seems to me—and correct me if I misunderstood you—that before we go forward with yet another program we ought to get some of the necessary reforms that you talked about in place. In other words, the idea that we are just throwing a bunch of money out there that does not have any impact and maybe is not being managed very well, that we just leave that there and put more money on top of it in order to encourage that money to be managed well to me does not make sense at all.

Should we not be putting our emphasis on the programs we have right now? Until the programs that we have right now are reformed, I am not so sure we should go ahead on yet another program.

NEED FOR AGRICULTURAL REFORM IN AFRICA

Mr. CONAHAN. I saw the question in two ways. No. 1, I see, as a prerequisite for any of the AID agricultural projects to work in Africa, some policy reforms must be made by the host governments. I think they generally need to do some things in the pricing and marketing areas. Until the recipients do this themselves, some of the AID assistance will not be as effective as originally planned.

Second, I thought this program made some sense because it went to the root cause of the problem. It would be the Congress directing AID to use funds explicitly for the purpose of attacking these problems. Therefore, I felt this program was one way of getting some of the fundamental problems corrected.

I liken this to a suggestion I heard in the subcommittee a couple of years ago, and I think you alluded earlier to the fact that AID personnel seem to give more attention to the design of projects than they do to the actual implementation or monitoring of projects.

I think a suggestion discussed in that forum was that we should begin rewarding AID personnel for doing a good job in the implementation and monitoring area rather than constantly rewarding them for developing new projects. Again, we are attacking the root causes of the problems. I liken this particular program to that sort of effort.

Senator KASTEN. I think we understand each other. I am hopeful we could attack the root causes, but with existing development projects rather than put a whole new program in place.

Mr. CONAHAN. Excuse me, Mr. Chairman, I saw the proposed initiative not as an additional program but rather a part of the total African program which would be more directed by the Congress.

CASH TRANSFERS TO CENTRAL AMERICA

Senator KASTEN. I believe it was the GAO that issued a report or a series of reports on management in Central America in terms of our assets and our various programs and the lack of accountability, et cetera. With regard to that program, have you seen any specific actions taken in order to deal with some of the problems that were discovered?

Mr. CONAHAN. We have recently issued a report dealing with the cash transfer programs to Central America. The issue there was control over the funds once the transfer had been made. Our conclusion was that there is simply no control over the funds once they are electronically transferred to the central bank of the recipient nation.

We raised a question as to what the Congress and the executive branch felt was needed in terms of expectations and objectives for that part of the world.

In contrast, in an earlier report on Jamaica we felt that, because of our more traditional economic objectives in that country, there were some changes that could be made. We felt there should be greater monitoring of the imports that were being financed by the cash transfers so that more productive U.S. imports would enter Jamaica.

Senator KASTEN. Well, let me do this a different way. With regard to the Economic Support Funds in your prepared statement you mention on page 5 that AID's financial controls cease once funds are deposited in a recipient central bank and comingled with other funds. You are not talking about a specific country at this time.

You also go on to say that GAO has not taken a position that controls are inadequate; it has merely raised policy questions on which Congress and the administration need to reach an understanding, that is, how much control is practical and what should be the expectations attributed to cash transfers.

Does this fairly reflect your views?

Mr. CONAHAN. Yes, sir.

Senator KASTEN. Now referring specifically to Jamaica or if we refer generally to the Central American program, I am afraid the media has interpreted this statement as a problem specific to Central America. It is not. This is a problem that is not specific to any region of the world; is that correct?

Mr. CONAHAN. If we are talking about the matter of control, it is common to the rest of the world.

Senator KASTEN. Do you have any reason to believe that the Economic Support Fund program is in any way different in Central America or in Jamaica than from the Economic Support Fund programs in other areas of the world? The problems that you found in the ESF in the Philippines, were those similar to those that you found in Central America, or are they significantly different?

Mr. CONAHAN. Yes, sir. In each instance the funds were being used differently. In the case of the Philippines there was an effort to channel funds into projects or specific activities, whereas in Central America there was no effort on the part of the Agency to channel funds into specific projects. The Central American funds were given on the grounds that the recipient governments would attempt to make reforms on a macroeconomic basis.

AID FROM OPEC COUNTRIES

Senator KASTEN. In your statement you say one of the clearest trends in international development assistance is the increasing number of major donors to the developing world, and you talk about the emergence of such new donors as members of organizations such as OPEC as evidence of this increase.

Did you get an indication of just how large a donor OPEC is and what countries they are contributing to? Frankly we have not been quite as impressed with some of the donations that are coming out of the Organization of Petroleum Exporting Countries as you suggest.

Mr. CONAHAN. I do not have the level of donations by the OPEC countries at hand, Mr. Chairman. However, I do have a listing of OPEC aid recipients. Primary recipients during 1980 and 1981 were, in decreasing order—Syria, Jordan, Morocco, Lebanon, Yemen, Turkey, Pakistan, Oman, and Sudan.

Senator KASTEN. One of the things that we are trying to work for, obviously, is not only through direct aid but also through things like IFAD to encourage OPEC to start to go in the direction you are talking about, and I hope that they will.

[The information follows:]

OPEC AID ACTIVITIES

MAJOR OPEC DONORS

The Congressional Research Service reported in March 1984 that foreign assistance offered by OPEC members since 1973 has been significant in terms of both dollars and as a percent of GNP. These countries provided over $63 billion in concessional assistance between 1973 and 1982. In some years, OPEC aid has represented more than 2.9 percent of the total GNP of member countries. By contrast, while donations from Western nations continue to be much higher in terms of dollar amounts, they represent only about .38 percent of donor GNP with the U.S. level varying from .20 to .27 percent of GNP.

While a few OPEC members have traditionally accounted for the bulk of OPEC aid, the concentration appears to have grown in recent years. The four major donors, Saudi Arabia, Kuwait, the United Arab Emirates (UAE), and Qatar, which accounted for roughly 80 percent of total contributions during the 1970's provided 96 percent of OPEC assistance in 1982. Saudi Arabia alone disbursed about 65 percent of all OPEC aid in 1982. During 1981 and 1982, OPEC members disbursed $15.3 billion in concessional assistance--$13.1 billion in bilateral aid and $2.1 billion in multilateral assistance. As shown by Table 1, Saudi Arabia, Kuwait and UAE were the primary aid donors during this period.

Table 1

Aid Disbursements of
Primary OPEC Donors, 1981-1982
(in millions)

	Bilateral Aid		Multilateral Aid		Total
	1981	1982	1981	1982	1981-1982
Saudi Arabia	$5,359	$3,907	$305	$521	$10,092
Kuwait	1,009	990	145	305	2,449
UAE	761	467	50	96	1,374
Quatar	230	212	19	38	499

Source: OECD, Development Corporation, 1983.

BILATERAL AID RECIPIENTS

OPEC bilateral aid programs have traditionally emphasized support for Arab countries. Between 1971 and 1976, Egypt alone received 35 percent of all OPEC assistance. While most OPEC support for Egypt ended in 1978, members continued to concentrate aid in a few Arab countries.

In recent years, Arab nations received nearly 84 percent of OPEC assistance disbursed on a country basis with Syria and Jordan receiving the largest amounts. Table 2 has been taken from a recent OECD analysis of OPEC aid ("Aid from OPEC Countries") and more clearly illustrates this concentration of bilateral OPEC aid.

Table 2

Major Recipients of OPEC Bilateral Aid
during 1979-1981, Net Disbursements
(in millions)

Recipient	1979	1980	1981	Total 1979-1981
Syria	$1,342	$1,262	$444	$3,048
Jordan	908	932	688	2,527
Morroco	392	413	274	1,080
Yemen	136	293	216	645
Lebanon	57	193	365	616
Sudan	283	166	163	613
Oman	168	165	230	563

Source: OECD, Aid from OPEC Countries. 1983.

MULTILATERAL AID

Compared to bilateral efforts, OPEC countries have contributed relatively small amounts to such traditional multilateral aid agencies as the World Bank and U.N. institutions. Members of the Organization have channeled only about 5 percent of their annual aid through such organizations, as compared with 23 percent for major Western donors. In addition, three-fourths of such assistance has come from three countries: Saudi Arabia, Kuwait, and Venezuela.

The most dramatic shift in OPEC aid policy following the 1973 oil price increase came with the establishment of 11 separate OPEC/Arab multilateral agencies. Prior to 1973, only one such institution, the Arab Fund for Economic and Social Development (AFESD), existed. By the end of 1975, however, six more had been created. These agencies committed $7.5 billion and disbursed nearly $4.8 billion between 1973 and 1981. Among the eight institutions that remain in operation today, the most important are the AFESD, the Islamic Development Bank, and the OPEC Fund for International Development.

Table 3 presents an analysis of OPEC assistance to multilateral organizations during the period of 1980 through 1982. During this period, Saudi Arabia provided $1.8 billion or 38 percent of the OPEC total, Kuwait provided $635 million or 20 percent of the total and Venezuela provided $300 million or 10 percent of the total.

Table 3

Concessional Assistance by OPEC Members to Multilateral Organizations, 1981-1982 (in millions)

	1980	1981	1982	Total 1980-1982
UN Agencies and Funds				
-UNDP	$ 14.0	$ 9.1	$ 6.2	$ 29.3
-WFP	28.3	26.8	17.9	73.0
-UNRWA	14.5	13.9	13.1	41.5
-IFAD	62.4	-	176.7	239.1
-Other	6.8	42.5	12.2	61.5
Subtotal	$ 126.0	$ 92.2	$ 226.1	$ 444.4
IBRD/IFC	$ 42.0	$ 30.5	$ 65.1	$ 137.6
IDA	83.7	134.3	156.8	374.8
Af. DB/Af. DF	12.2	102.6	21.0	135.8
IDB	52.5	-	53.9	106.4
IMF	46.8	-	5.0	51.8
OPEC Fund	240.5	257.5	374.1	872.1
Arab Aid Agencies				
-AAAID	$ 54.0	$ 42.6	$ 41.3	$ 137.9
-AFESD	205.2	177.3	171.8	554.3
-BADEA	76.7	16.7	-	93.4
-Isl. DB	2.6	-	130.4	133.0
-Other	6.3	-	45.5	51.8
Subtotal	$ 344.8	$ 247.3	$ 389.0	$ 981.1
Other Multilateral	$ 8.8	$ 10.7	5.4	24.9
TOTAL MULTILATERAL	$ 957.3	$ 875.1	$1,296.4	$3,128.8

Source: OECD, Development Cooperation, 1983 Review and OECD, Aid from OPEC Countries, 1983.

INADEQUATE SUPPORT FOR WATER AND SANITATION PROJECTS

Senator Kasten. If countries receiving assistance in rural and sanitation feel that unsafe water and inadequate sanitation are low priority—this goes back to some of the problems that you mentioned with regard to the reforms necessary—but if countries in fact do feel that unsafe water and inadequate sanitation are low priority kinds of projects, then are we not at cross purposes with other aid projects such as health care and other kinds of things?

You say that many factors affect the time and the delivery of water and sanitation systems and that according to the World Bank, besides low host country priority, inadequate financial support and cumbersome logistics contribute to this slow progress.

When you say "inadequate financial support" do you mean inadequate financial support by the host country, or do you mean inadequate financial support by the United States or by the World Bank? We have been putting out well over $1 billion a year for the last 4 years. Is it a question of priorities or the disagreement with priorities or the fact that we can be giving aid to countries and we believe that they ought to be working on water and sanitation but in fact they work with something that might be a little more glamorous or a little bit more attention-getting?

Mr. CONAHAN. I think, Mr. Chairman, one of the things we found over a long period of time is that AID has entered projects with the expectation that local financial support would be forthcoming. However, we have found that AID has not really tied down the manner in which the recipient is going to come forward with the local financial support for the project, both during the development period as well as during the operation and maintenance phase of the project.

Senator KASTEN. Specifically you are saying that it could be as much as a casual conversation say between our AID official and somebody in the recipient government, that if you do this we will probably do this, and under those circumstances we go forward?

You say not tied down. Do we at least go through some kind of a project that is all agreed upon in terms of their participation and our participation?

Mr. CONAHAN. Yes, sir. Agreements between AID and recipient countries include specifics about the amount of local financing that will be required and the timing of such financing. What happens all too often is that AID does not see precisely where the local financing will be coming from. There is no designation on the part of the recipient as to where this financing will come from or how it will be applied to the project. Recipients do encounter competing needs for their available funds and the system of allocation simply does not always coincide with what we believe are the requirements at the time.

Senator KASTEN. But is not our financing stage by stage in most of these cases contingent upon their not necessarily matching dollars but their participation, or do we just go hog-wild with the idea that well, maybe someday they will come along?

Mr. CONAHAN. No, sir. It is indeed designed to be phased in with the local financing. But in terms of implementation and management out in the field it does not always occur that way.

Senator KASTEN. It often does not occur that way or it does not always occur that way?

Mr. CONAHAN. I do not think I have a good answer for that precise question. There are instances where it does not occur.

Senator KASTEN. We have got two or three other questions here, but these are more detailed and I think that if you could respond to these in writing it would be more convenient for the committee.

But as I said to General Beckington we want to work with you, and to the degree that we have already been able to work together I think it has been helpful for us, and we appreciate what you are doing. Where you have got suggestions and changes that could be made we very much want to work with and support you.

SUBMITTED QUESTIONS

So we will submit some questions for the record. Hopefully you can get back to us with answers in writing. We very much appreciate your work and your testimony here today.

Mr. CONAHAN. Thank you, Mr. Chairman.

Senator KASTEN. Thank you very much.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

LAND REFORM IN EL SALVADOR

Senator Kasten: Recently the Inspector General of A.I.D. issued a report on land reform in El Salvador. Can you tell me generally what your assessment of the I.G. report is?

Mr. Conahan: Our review has been limited to reading the report and the subsequent AID management response. The report appeared to be an objective analysis of the progress made and problems encountered by AID in implementing this particular type of program in a country such as El Salvador.

OPERATION AND MAINTENANCE OF IRRIGATION SYSTEMS

Senator Kasten: In your discussion of the irrigation systems studied in Indonesia, Sri Lanka and Thailand, you say that there is some question about the commitment of the recipient countries to these projects. For instance in Indonesia, you state that the operation and maintenance of the small-scale irrigation systems will take eight years. I understand that irrigation systems are very important. But I do wonder at the wisdom of getting involved in such costly projects, obviously without a plan to get the recipient countries involved so that they can take the projects over within a reasonable amount of time. Operation and maintenance could last a lot longer than eight years, and could be very costly. What did you find? Was there no plan for these countries to take over O&M? No training programs? Or are what we looking at just a lack of interest in these recipient countries at getting involved in O&M?

Mr. Cohahan: As we reported in August 1983, AID and other donor organizations have not given sufficient attention to the institutional and financial costs of operating and maintaining irrigation facilities. Donors have assumed that recipient countries could and would provide the budget support necessary to effectively operate and maintain these projects; however, this has not happened. The overall lack of attention to O&M has resulted from a combination of factors. Primarily, there has been a traditional emphasis by donors and recipients toward new project investment as opposed to operating and maintaining those projects already in place. Secondly, recipients have not been committed to O&M due to a general lack of interest on their part and a limited understanding of what changes in development policy and procedures are required for the upkeep of irrigation systems. This is where the donors can play a key role, by realistically considering O&M early in their project design and approval cycle. We believe that the recipient should be encouraged to shoulder the financial, managerial and technical responsibilities of O&M programs to the extent practical, and that donor project assistance should include the necessary training and technical assistance to accomplish this goal. As future investments in irrigation will be required to maintain and accelerate the pace of food production in the developing world, we believe a more reasonable certainty of financial commitment by the host country and a technical plan for future implementation of the O&M program should be required in the design of each project.

Regarding AID and specific steps that could be taken by the U.S., our report noted that AID project loan agreements specify that recipient countries will provide adequate O&M funding. Furthermore, as required by Section 611(e) of the Foreign Assistance Act, AID certifies that these recipients have the economic and human resources necessary to operate and maintain specific irrigation projects. Notwithstanding such agreements and certifications, recipient countries have to invest in rehabilitating neglected systems and in new systems. We believe that AID should strengthen the project planning, loan agreement, and section 611(e) certification process as mechanisms for establishing recipient country capability, willingness, and commitment to operation and maintenance. Our report recommended several actions that should be taken by the Administrator of AID to strengthen these available mechanisms.

USE OF LESSONS LEARNED BY AID

Senator Kasten: I am also concerned about your statements regarding the difficulties with irrigation systems in Asia. I know that there must be a tendency to go towards irrigation systems in Africa because of the severe drought. I am concerned about the problem A.I.D. has had in the past of not learning from past mistakes. Is the mechanism in place--from what you have seen--for A.I.D. to use the knowledge from the irrigation projects in Asia for planned projects in Africa?

Mr. Conahan: It is difficult to say to what extent AID has a mechanism in place to use on other locations the knowledge it has gained in Asia. Our work has shown that the application of lessons learned is primarily restricted to the personal initiative and experience of individuals involved in a particular project. However, in addition to our review, AID has conducted several impact evaluations of its irrigation projects, which have been provided to the various AID missions, and intends to issue an irrigation policy paper. It also has a project to provide technical assistance on water mangement to developing countries. One of the stated project objectives is to systematically transfer information useful to improved water management practices throughout the world. AID agreed with our recommendations relating to identifying O&M funding sources on a project by project basis and to assuring the necessary O&M capability. These recommendations are equally applicable to Africa. However, AID did not define the details for carrying out these recommendations on a regional or worldwide basis.

SAHELIAN ABSORPTIVE CAPACITY

Senator Kasten: When staff visited Senegal, it was apparent that the A.I.D. Mission was shying away from large irrigation projects there (almost a "let the other donors do it" mentality). You mention in your statement that there are 700 donor-sponsored projects in the Sahel. This has got to short-circuit the often over bureaucratic and inexperienced governments of the Sahel. When will your report on this problem be completed? Should A.I.D. back off from new projects until we have a better idea of what projects can be absorbed by those governments?

Mr. Conahan: Our ongoing review of the Sahel, which is expected to be completed in early 1985, is examining several aspects of the problems caused by the large number of donor organizations and individual projects in the region. Our review is also looking into the capability of the Sahelian governments to plan and manage their own economic development as well as donor activities.

In 1979 we reported that the Sahel's capacity to absorb assistance was a matter of continuing concern and a principal reason why AID was experiencing difficulty in implementing its development projects. Furthermore, our past reviews have shown a need for more concentrated effort to complete projects once they have been initiated. The needs of the Sahel continue to be great and the absorptive capacity of the regional recipients remains questionable; however, we are not in a position to say whether or not AID should "back off" from new Sahelian projects.

INTER-AMERICAN FOUNDATION

STATEMENT OF ROBERT W. MASHEK, PRESIDENT, INTER-AMERICAN FOUNDATION

ACTIVITIES OF FOUNDATION

Senator KASTEN. Mr. Robert Mashek. Mr. Mashek is the president of the Inter-American Foundation. We are pleased to have you testify here before us. We would ask that you summarize your statement. The entire statement will be made part of the record. Thank you, Mr. Mashek.

Mr. MASHEK. Thank you, Mr. Chairman. It is a pleasure for me to be here today to discuss the Foundation. I have been with it for about 13 years, serving in various capacities, and I am now serving as interim president.

The Foundation, as you know, supports the self-help efforts of people in Latin America and the Caribbean, those who have little income and few opportunities. The economic recession in Latin America and the Caribbean has been particularly harsh in the past 2 or 3 years, especially on the poor, as employment has risen sharply, real wages have declined, and government services have been curtailed.

Under these circumstances, low-income groups must place even greater reliance on their own ingenuity, resources and organizational efforts. They must increasingly devise their own self-help efforts to improve their lives.

With its grants the Foundation is assisting groups such as associations of small farmers in improving their agricultural production and marketing, small urban businesses that are creating new sources of jobs and income, vocational education programs that are training the unskilled, and community services that produce food, improve housing and provide health care on a self-help basis.

BUDGET REQUEST

For fiscal 1985 we are requesting an appropriation of $11,992,000 and 67 full-time equivalent employees in accordance with the President's requested budget.

This is a time of transition for the Foundation. Three members joined the seven-member Board of Directors during the last year. The Board is currently searching for a permanent replacement for the president of the Foundation, and we shall soon be able to review a comprehensive study being done by a three-man team of outsiders commissioned by the Board of Directors on the Foundation's policies and procedures and practices.

While we can anticipate some changes in operations and program directions, the Foundation continues the same policies and the same program it has had over the years. Priority is being given—I was very interested in the discussions that took place preceding this one—to monitoring its projects, trying to derive some information on how they have proceeded, and in getting this information out to not only other aid agencies but similar kinds of groups within Latin America and the Caribbean.

Thank you, sir.

[The prepared statement of Mr. Mashek follows:]

PREPARED STATEMENT OF ROBERT W. MASHEK
PRESIDENT
INTER-AMERICAN FOUNDATION

Life for Latin America's poor has become more difficult in recent years. Over the past three years, per capita income has declined by ten percent for the region as a whole; last year it fell by nearly six percent. Almost every country of the region has been affected by this economic deterioration, which was provoked by declining export markets, heavy debt burdens, and high interest rates. In many areas, economic problems have been aggravated by violence and extraordinarily destructive droughts and floods.

These conditions have severely affected the poor. Unemployment has risen sharply, reaching unprecedented rates in many countries--particularly among unskilled laborers. And for those that have retained jobs, real wages have often declined. At the same time, public programs in eduction, health, and housing are being curtailed. In cities, food prices have risen as government subsidies have diminished, while in rural areas, small farmers face higher costs and reduced availability of agricultural credit and supplies.

Under these circumstances, self-help efforts of the poor take on added significance. Even more than usual, the poor are compelled to rely more on their own ingenuity and tenacity for survival. While overall economic conditions have reduced opportunities for social and economic advancement, the poor, through their own efforts, can make a difference for themselves, their families, and their communities. Small farmers, for example, benefit by forming associations to market their crops and obtain better prices. Artisans can increase their incomes by working together in cooperatives where they purchase raw materials in bulk, acquire training in accounting and other managerial skills, and jointly market their finished products. Families in urban slums can form neighborhood associations to build their own houses and to provide health care for their communities. The Foundation's task is to reinforce these efforts by supporting local grassroots organizations in which the poor are working together to resolve their problems and create new opportunities for a better life.

The Foundation was created by Congress in 1969 out of concern that existing programs of U.S. development assistance were not adequately reaching poor people. Instead of working through governments, the Foundation responds directly to the initiatives of the poor that are planned and carried out by their own local private organizations.

Victor Blanco, president of Multiple Medical Management in Los Angeles, became the third chairman of the board in December 1982. Three other continuing members are: Doris B. Holleb, Director of the University of Chicago's Metropolitan Institute; Luis G. Nogales, Executive Vice-President of United Press International; and M. Peter McPherson, Administrator of the Agency for International Development. Three new members were appointed to the board in the last year:

- Harold K. Phillips, president of Hal Phillips Pontiac Buick of Burbank, California;
- J. William Middendorf II, the U.S. Permanent Representative to the Organization of American States; and
- Langhorne A. Motley, Assistant Secretary of State for Inter-American Affairs.

Although the authorizing legislation allows for 100 staff members, the level has been kept between 60 and 70 in most years. Our personnel ceiling in FY 1984 is the equivalent of 67 full-time positions. Our budget for FY 1984 includes $13 million in Congressional appropriations as well as funds from the Social Progress Trust Fund, administered by the

Inter-American Development Bank. Under a three-year agreement between the U.S. Government and the Inter-American Development Bank, an average of $16 million per year is made available to the Foundation from the Trust Fund.

For FY 1985, the Foundation is requesting $11,992,000 in new budget authority and a continuation of 67 full-time equivalent staff positions. Attached as Appendix B is the Foundation's FY 1985 budget submitted by the President, along with supplementary information on the history of our funding.

Since beginning operations in 1971, the Foundation has made 1,600 grants for $171 million in 35 countries in Latin America and the Caribbean. Most of the Foundation's assistance goes to; 1) rural organizations of small farmers to improve agricultural production and marketing; 2) very small businesses in urban areas to create new sources of income and employment for poor people; 3) nonformal educational programs to train the unemployed and the underemployed, and to test experimental alternatives to formal schooling; 4) initiatives by poor communities to provide access to such basic goods and services as food, housing, health, and legal assistance; 5) research and analysis that contribute to understanding of development issues affecting poor and disadvantaged groups; and 6) activities that reinforce cultural identity and self-respect among the poor and lead to their economic and social advancement.

Grants go to groups such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also extended to large organizations that work with local groups, providing them with credit, technical assistance, training, and marketing services. The organizations we assist design the projects, manage them, and assume the responsibility for their success or failure.

In considering project proposals, we favor activities that are likely to be self-sustaining beyond the period of our grant and that offer promise for demonstration, expansion, or replication in other parts of the country or elsewhere in Latin America and the Caribbean. A prerequisite for our support is that group members contribute their time, energy, and resources to the projects to demonstrate their commitment. Their active participation provides them valuable experience for other development activities in the future. Once projects are underway, we evaluate them to obtain a greater understanding of what works and what does not work in grassroots development, and we disseminate our results to other grantees and development organizations.

The changed economic circumstances in Latin America and the Caribbean have created both new constraints and expanded opportunities for local development organizations and have given heightened importance to their activities. The work of the Foundation, like that of other development assistance programs, has consequently been affected in a variety of ways. The economic crisis has forced low-income groups to explore new alternatives and to place even greater reliance on their own resources as they seek to improve the lives of their members and communities. Several years ago, it was common for small experimental projects that had obtained seed capital from the Foundation subsequently to attract financial support from local governments. For example, government agencies in Mexico had adopted and replicated several Foundation-assisted projects in self-help housing and health. Today, with public services and budgets being reduced, the prospects for governmental support of grassroots activities have diminished. The decline in public support, which has been compounded by reduced levels of private assistance, is requiring grassroots organizations to generate their own income. The Foundation's work with local groups is increasingly directed to finding more economical ways of accomplishing their objectives; our emphasis has turned to projects with minimal seed capital requirements and low maintenance costs. In the Caribbean, for example, the Foundation is financing training for small farmers, who have perhaps an acre of land to cultivate, in intensive organic methods which reduce the need for chemical fertilizers and pesticides.

Credit programs served in many places as effective sources of capital for small farms and businesses during the 1970's. These programs have been undermined by current conditions of inflation, recession, and high interest rates. Low commodity prices do not provide the farmer sufficient return to liquidate loans. For example, one Latin American cooperative federation is depleting its loan fund because members are obliged to sell to the state marketing board which has been unable to make full and timely payments to producers. In other instances, inflation has caused rapid erosion in the real value of credit funds; where interest rates have been adjusted to inflation, recipients have not been able to pay off their loans. In response, some small farmer groups are experimenting with "livestock banks," in which animals are assigned to members who must "return" the offspring for assignment to other members.

Small enterprises, such as Brazilian artisan groups, are seeking to sustain their operations by using their limited resources as working capital rather than making new investments. In Chile and Brazil, efforts to encourage the poor to make more efficient use of reduced public health services are combined with greater community initiative in preventive health. These are only a few of the implications of changed conditions for the Foundation's work. In a situation where needs are greater and resources fewer, our choices have become more difficult and more selective.

General Comments on Program: FY 1971 - FY 1984

Compared with the resources of other development assistance organizations such as the U.S. Agency for International Development, the World Bank, or the Inter-American Development Bank, our financial support to the poor in Latin America and the Caribbean has been small. Nevertheless, the Foundation has played a significant role in supporting non-governmental development programs over the past 13 years. It has been able to do the following:

1. It has shown that development assistance can reach poor people and contribute to their economic and social advancement. The poor have few material assets, but by organizing and working together, they can make better use of their scarce resources and their talents. Through organization and the pooling of resources, the poor can create new opportunities for their own social and economic development. They can also increase their bargaining power with merchants, landlords, and government officials, and they can transform their needs and hopes into demands and results. For example, the Foundation supported a Paraguayan association of agricultural cooperatives that provides credit and training to peasant families. In Haiti, a grant has assisted low-income women seeking to start their own small businesses.
2. The Foundation's experience demonstrates that local private organizations in Latin America and the Caribbean can work effectively to improve the lives of their members. The importance of their contribution to national development has been recognized in many countries. In Belize, cooperatives of beekeepers are providing credit and supplies to members, and in the Dominican Republic, a local development organization is helping small farmers devise low-cost, innovative ways to work the land.
   When the Foundation began its work, many skeptics claimed that there were few grassroots organizations of the poor in

Latin America. We have found just the opposite; in nearly every country of the region, there are large numbers of farmer, community, and workers' organizations through which poor people are striving to improve their situation. Even though many of these organizations are fragile and operate under difficult conditions, they have shown that they can effectively use development assistance and contribute to the economic and social advancement of their members and the communities in which they are located.

3. The Foundation has shown that a U.S. agency can work in partnership with private organizations and with business and professional leaders in Latin America and the Caribbean to support the efforts of poor people. The Foundation has provided more than $12 million to national development foundations in 13 countries throughout the region including Mexico, Nicaragua, Uruguay, the Dominican Republic, Haiti, Dominica, and the Bahamas. These foundations, which were organized and continue to be supported by local business leaders, carry out development projects that are assisting small-scale producers.
4. Successful groups and projects encourage others in their own--and other--countries to try to solve problems. The number and scope of private development organizations is increasing, occasioned in part by pressing needs and in part by the demonstration effect of others. To encourage these groups and to help inform them of successful endeavors, the Foundation supports working visits, seminars, and information exchange. Many of these groups have been able, over time, to generate resources through their own productive activities and to gain access to local public or private resources for continued development.
5. The Foundation has influenced the work of other development organizations, many of which are much larger than the Foundation itself, and can devote more resources to the

problems related to poverty. The Small Projects Fund of the Inter-American Development Bank and the new African Development Foundation were created in large part as a result of the Foundation's experience supporting local private organizations. We continue to work closely with the Small Projects Fund, and we are assisting the African Development Foundation as it launches its work.

6. The Foundation has strengthened its program of publications and dissemination. Its annual report and journal, Grassroots Development, are sent to every major development assistance organization operating in Latin America, and we have also published and distributed special reports on topics such as our work in community health, our support of cooperative networks in Bolivia, and our program in the Dominican Republic.
7. The Foundation has tried to be an efficient organization. It attempts to respond to proposals with either a "yes" or "no" within 90 days of receiving them. To insure that funds are properly used, our representatives visit each project at least once a year, and we require that grantees send us narrative and financial reports, and we employ independent local accounting firms to do periodic audits. Our aim has been to keep administrative expenses low. Last year was the first year since 1976 that our administrative costs exceeded 15 percent of our overall budget. This increase to 17 percent reflected a decrease in our grant funding which was largely caused by the continuing decline in the average size of our grants and our greater attention to the monitoring and evaluation of ongoing grants.

Highlights during FY 1983

In FY 1983, the Foundation made progress in several important areas of its work. Highlights of the past year include the following:

1. During FY 1983, we made 206 new grants and 134 supplements to previous grants for $17.7 million. The $17.7 million represented a decline in our funding from the $21.2 million in 1982. Part of this decline, as explained below, is due to the Foundation's making smaller grants and to our increased emphasis on monitoring and evaluation of ongoing projects. Foundation grants went to organizations in some 25 countries, but about 60 percent of our grant funds supported groups in eight countries: Colombia, Mexico, Chile, Uruguay, Peru, Ecuador, Bolivia, and the Dominican Republic.

   The largest share of Foundation grants went to projects for agricultural and rural development to enable peasant farmers to increase production, expand their markets, and gain access to credit. Other rural projects assisted off-farm enterprises to help generate employment for the landless. In urban areas, the Foundation is supporting projects to strengthen and expand small businesses that are sources of jobs and income for low-income workers. The Foundation has also assisted rural and urban communities to initiate self-help housing programs, establish consumer stores, and develop local health programs. Other grants are enabling poor people to obtain basic literacy instruction and new job skills, training community and cooperative leaders in accounting and other administrative skills, and assisting small farmers in learning about new production and marketing techniques. Finally, a few Foundation grants are supporting research on problems of the poor and on community and local development issues.

2. We resumed our grant-making in Brazil. In 1978, the government of Brazil asked the Foundation to suspend its operations in that country. Since then, we have had many

discussions with officials of Brazilian government agencies and leaders of Brazilian private organizations in an effort to renew our program in the country. Several months ago, we reached an agreement in which the Foundation, working initially in close cooperation with the Ministry of Labor, would make grants in support of small business enterprises and of artisan associations. During the year, it made 12 grants to Brazilian organizations totalling $576,000.

3. We evaluated important areas of our grant-making and produced significant studies of grassroots development. Economist Albert Hirschman, who was on sabbatical from the Institute for Advanced Studies in Princeton, New Jersey, visited approximately 50 IAF grantees in the Dominican Republic, Colombia, Peru, Chile, Argentina, and Uruguay. He set out to discover how low-income people work and organize to improve their lives, and a book on his findings will be published shortly. A chapter from his report has been published in the Foundation's journal Grassroots Development.

Judith Tendler, a development economist who has worked for AID, the World Bank, and other donor organizations, studied the Foundation's support for four networks of rural cooperatives in Bolivia. Her full report, What to Think About Cooperatives, was published by the Foundation last fall, and distributed widely to other development assistance organizations, universities, and grantees. Her summary and conclusions were included in Grassroots Development. She is now completing an evaluation of Nicaragua's national development foundation, which has been a major grantee of the Foundation.

The Foundation conducted several seminars on its experience in worker self-managed enterprises. We invited to the Foundation officials from several other development organizations in Washington to meet with Peruvian-based professionals Martin Scurrah and Bruno Podestá, who led the evaluation team that has studied our support for worker-managed enterprises. They are now preparing a book on the worker self-management experience in Latin America. Anthropologist Robert Wasserstrom completed work on a series of oral histories of seven organizations that have received IAF grants. We have published several of the histories in Grassroots Development, and the full set will be published as a book next year. We also revised The Inter-American Foundation in Numbers, a statistical analysis of our grant-making that is updated at the close of each fiscal year.

IAF evaluations also included some 35 studies of specific projects and grantee organizations. One such study was an assessment of a group in Uruguay whose 1,000 women artisan members knit woolen goods for overseas markets. A report on the Foundation's work in the Dominican Republic was published as a book and distributed to development organizations in the Dominican Republic and in this country.

4. The Foundation sponsored exchanges among grantee organizations and meetings with other development assistance organizations. With IAF support, representatives of some 50 grantee groups in Colombia organized a four-day conference to share their experiences in such areas as marketing, accounting, administration, consumer stores, handicraft production, and adult education. Two months ago, 30 staff members of private voluntary organizations met at the Foundation to discuss ways of improving evaluation and learning and of better disseminating the results. Foundation staff also attended conferences and gave public lectures on our grassroots development work. Staff members spoke before groups at settings such as the University of Maryland, Notre Dame University, the University of Illinois, Hobart College, the

Carnegie Corporation, the Institute of World Affairs, the Council on Foundations, the Booker T. Washington Foundation, and a conference on worker-managed enterprises organized by AID and the U.S. Department of Labor.

5. We began a new agreement providing the Foundation with access to up to $48 million in local currencies from the Social Progress Trust Fund, which is administered by the IDB. The agreement runs from January 1, 1983 to December 31, 1985, and will be the major source of our funding in Brazil, Colombia, Argentina, Peru, Costa Rica, and Ecuador.
6. We strengthened our monitoring of ongoing projects. We have developed better internal procedures to ensure that projects are visited by Foundation staff on a regular basis, that grantees submit to the Foundation required reports and audits on a timely basis, and that the Foundation can assist the grantees in gaining access to technical support when it is needed to carry out the projects.

Objectives for FY 1985

This is a time of transition for the Foundation. Four new members joined our board of directors in the last 15 months. We are currently searching for a new president of the Foundation to replace Peter Bell. And we shall soon be able to review a comprehensive outside study commissioned by our board on the Foundation's goals, policies, and procedures.

While we can anticipate some changes in operations and program directions, the Foundation retains a continuing commitment to the ideas that inspired its creation and to the principals that have guided its development over the years.

In light of both of these changes and the Foundation's practice to respond to requests from Latin American and

Caribbean organizations, we cannot determine now precisely how we will spend our grant funds in FY 1985. Nonetheless, we can estimate the likely allocation of grants by country and by program area based on past experience and analysis of the changing context of our work. We expect that our program in Brazil will expand. We anticipate approving some $3 to $3.5 million in grants in Brazil, making the program there our largest in Latin America and the Caribbean. Under our proposed budget, we are planning to continue major grant-making programs in Chile, Colombia, Mexico, Bolivia, and the Dominican Republic, where new grant opportunities continually emerge from various networks of organizations. In addition, we expect to maintain strong programs in support of local groups in Paraguay, Ecuador, Uruguay, Peru, Costa Rica, Argentina, Haiti, Jamaica, and the smaller islands of the Caribbean.

We also plan to pursue our efforts to evaluate the results of our work. Evaluations help the Foundation learn from our project experience and apply that learning to our grant-making. In addition, they enable us to share the lessons of our experience with grantees and other development organizations. In FY 1985, we will select 30 to 40 individual projects to be assessed by independent, outside evaluators. We are also planning to build upon recently completed or ongoing studies in Bolivia, Chile, and Nicaragua to produce a comprehensive review of our work in agriculture and rural development, which has been the program area receiving almost one-half of our grant support. We expect that this review will result in the formulation of improved guidelines for our own decision-making, and will generate lessons from our experience

changing context of our work. We expect that our program in Brazil will expand. We anticipate approving some $3 to $3.5 million in grants in Brazil, making the program there our largest in Latin America and the Caribbean. Under our proposed budget, we are planning to continue major grant-making programs

in Chile, Colombia, Mexico, Bolivia, and the Dominican Republic, where new grant opportunities continually emerge from various networks of organizations. In addition, we expect to maintain strong programs in support of local groups in Paraguay, Ecuador, Uruguay, Peru, Costa Rica, Argentina, Haiti, Jamaica, and the smaller islands of the Caribbean.

We also plan to pursue our efforts to evaluate the results of our work. Evaluations help the Foundation learn from our project experience and apply that learning to our grant-making. In addition, they enable us to share the lessons of our experience with grantees and other development organizations. In FY 1985, we will select 30 to 40 individual projects to be assessed by independent, outside evaluators. We are also planning to build upon recently completed or ongoing studies in Bolivia, Chile, and Nicaragua to produce a comprehensive review of our work in agriculture and rural development, which has been the program area receiving almost one-half of our grant support. We expect that this review will result in the formulation of improved guidelines for our own decision-making, and will generate lessons from our experience that we can share with other organizations concerned with rural development. In FY 1985, we will also complete major reviews of our support for low-cost, alternative technologies and small, urban businesses.

We will continue to emphasize the management and monitoring of ongoing grants. Careful oversight and appropriate assistance enable both the Foundation and the grantees to detect problems early and find solutions.

In FY 1985, we will be giving continuing attention to disseminating the results of our work to grantees and other development organizations. Through the publication of our journal, Grassroots Development, and the production of monographs and studies, we are contributing to a greater understanding about what works and what does not work in grassroots development.

Finally, we will maintain our efforts to coordinate our activities with other development funders. We will further inform other donor organizations regarding the work of the Foundation and continue to share information with other agencies on specific grants and on more general issues such as program directions, funding criteria, country and local settings for projects, and approaches to monitoring and evaluation; by entering into joint funding arrangements with other donors; by encouraging other institutions to assist groups we have supported; and by referring agencies to projects we cannot support.

Conclusion

In nearly 13 years of operation, the Foundation has shown how development assistance can contribute to the economic and social advancement of poor people by drawing on their ingenuity and hard work, and by supporting their commitment to a better life for themselves and their children. Our grants bypass layers of bureaucracy and go directly to private organizations in Latin America and the Caribbean, often reaching people who previously had no access to development assistance.

As our country searches for approaches to development assistance that place greater reliance on private initiatives and encourage the poor in their own self-help efforts, the Inter-American Foundation is showing how these objectives can be achieved.

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PROGRAM CONSISTENCY

Senator KASTEN. Thank you, sir.

You said in your prepared statement and also in your summary that this is a period of transition for the Foundation. You also point out that the Foundation retains a continuing commitment to the ideas that inspired its creation and to the principles that have guided its development over the years.

Yet because of your search right now for a new president and because of four new board members, as I understand it, you cannot determine precisely how you will spend the grant funds for fiscal year 1985; is that correct?

Mr. MASHEK. That is correct, and it is not only because of that, but it is because we do not program in advance, as most agencies do. We do not initiate projects, but we look at project proposals that are brought to us by Latin American, nongovernmental organizations and decide on that basis.

Generally speaking, however, there are eight or nine countries where two-thirds of our support goes, and one of the larger changes already afoot is that we started a new program on a very modest scale in Brazil last year, and we expect that to grow and perhaps become the largest program.

I think, however, that the core of the policies and the programs will remain intact because the new board of directors has committed itself to the legislative mandate and the particular approach that the Foundation has evolved over time.

Senator KASTEN. I think one of the benefits of the Foundation has been its consistency. I think frankly one of the reasons that it continues to receive such a favorable approval from Congress, from this committee—we are all anxious to work with you and appreciate what you are doing—but I believe from the statement that you made you are trying to put the best face on this, and I only hope your Board of Directors and everyone realizes how important it is that you do maintain your commitment to the Foundation's principles.

Do you believe that the Foundation will maintain the same kinds of programs that it has in the past, that there will be no deviation from its stated goals?

Mr. MASHEK. I think it will, yes. First and foremost, I think that it will continue to see that the programs supported have as their beneficiaries people who are of low income by some clear definition. We are looking at and will continue to support productive efforts of small farmers and small businesses, as well as innovative or experimental programs in nonformal education, health services, and other types of community services.

KISSINGER COMMISSION REPORT

Senator KASTEN. Let me switch. You know that the Kissinger Commission report made indirect references to programs such as yours.

How do you see your role now as the President's Central American Initiative legislation is developing? Are you prepared to take on a much larger role if, in fact, the Kissinger Commission Central American Initiative evolves?

Mr. MASHEK. It is a little bit difficult to say. I think there probably is some role there, as there has always been. The Foundation is a small slice of U.S. foreign assistance. The particular approach it has taken is supporting private sector organizations that are doing development programs and projects in those countries in Central America. However, there are problems of absorptive capacity. If a great deal of money is being spent by other agencies in certain countries, the role for an organization such as the Inter-American Foundation may be very small.

It is very difficult for us to operate, for example, in El Salvador. It is still the staff assessment and the Board decision that it is too dangerous to send staff members regularly into particularly rural areas, where in other countries most of our funds, still 47 percent of our funding, goes for small farmers. It is a bit difficult.

Incremental increases could be absorbed. Large increases not so easily. I think a bit of gradualism.

Senator KASTEN. You had $4,000 in projects in El Salvador in 1983, nothing since. I assume that, based on what you have just said, you have got nothing planned for this year or next right now in Salvador; is that right?

Mr. MASHEK. We are constantly assessing the situation in El Salvador, Guatemala, Nicaragua, and Honduras because in all of those countries, in one zone or another, there is a level of violence, at least sporadically, and we have to see to what extent it is safe for our staff to travel, and, of course, violence will affect the ability of grass roots development organizations and other kinds of organizations native to that country to be able to do work.

STAFF

Senator KASTEN. In your prepared testimony you state that you have 67 full-time positions at the present time.

Mr. MASHEK. We do.

Senator KASTEN. You were authorized to have 100 positions.

Mr. MASHEK. That is right.

Senator KASTEN. Can you tell me why you cut your staff down? Was this your idea? Is this OMB's idea?

Mr. MASHEK. We have had negotiations over time with OMB, and this is the result.

WATER SYSTEM PROJECTS IN MEXICO

Senator KASTEN. I want to just talk briefly about the situation in Mexico. There has been a lot of publicity about the drastic situation with the water supply in Mexico. In your justification material you say that you do have projects helping communities in Mexico to construct various water systems.

I am interested if you can give us some detail on these projects. I assume they are small self-help projects. Are these spread out in the country? Are they in and around Mexico City? What kind of projects are you talking about?

Mr. Mashek. I can send the committee more information on this.

[The information follows:]

WATER SYSTEM PROJECTS IN MEXICO

SUBJECT: Projects dealing with water scarcity in Mexico re - Senator Kasten's request for information

Most of the IAF projects in Mexico that deal with the problem of water scarcity and conservation are in the rural areas. To my knowledge we have funded no projects in urban areas with a focus on water either in conservation or distribution. None of the rural projects that we have funded treat the problem of water alone. The three Project Descriptions attached have water conservation as a component of a larger integral problem of resource conservation or agricultural production.

ME-139 Xochicalli - In this project, technical assistance has been provided to small municipalities and community groups concerned with water scarcity. During one of my visits to the project I saw one major rain water catchment basin that was constructed by an ejido community for irrigation purposes. This was in an area where no water could be obtained through a well and the people had to rely on other methods to obtain water. Roofs for rain water collection and undergound tanks were used at an elementary school to supply potable water. I saw five examples in which new construction techniques with ferrocement in individual campesino homes for systems to collect and store water for family use.

ME-194 Promoción - In this project systems are adapted and added to the existing homes of low-income families for the collection of rainwater and the recycling of waste waters for household and irrigation uses. Athough twenty of these systems under our project were to be built, only twelve are actually operational. The project suffered from the devaluation of the Mexican peso and high cost of materials.

ME-188 FEDC - Although little is stated in the Project Description about water conservation, many of the communities receiving assistance under request help in obtaining potable water and the development of irrigation systems. A large well digging rig has made it possible to perforate very deep wells for a number of communities in arid zones to provide water for these purposes. Loans are provided to the communities under our grant to cover the costs of these well drilling operations.

INTER-AMERICAN FOUNDATION GRANT

MEXICO

ME-139

GRANTEE Xochicalli, A.C./Consultea, S.C.

ADDRESS
Texcoco No. 1, S.V., Chimalhuacan
Apartado Postal No. 8
Ozumba, México
Mexico

TYPE OF ORGANIZATION Private, non-profit (specializing in appropriate technology)

FUNDING

IAF	$ 568,650
Grantee	630,360
Other	367,626
Total	$1,566,636

DURATION Five years and five months

DATE GRANT AGREEMENT SIGNED: 2/5/80

AMENDMENT NO. 1: 2/3/81
AMENDMENT NO. 2: 8/20/82

ORGANIZATIONAL BACKGROUND

Xochicalli is a private, non-profit organization dedicated to testing and disseminating appropriate technologies which might lessen problems of resource scarcity among poor rural populations in Mexico. Ten years ago, two Mexican scientists began the program with the construction of a self-sufficient ecological house, cultivating a 1/2 acre farm that supports the family with vegetables, fruits, meats, fish and dairy products. All wastes, both human and animal, are recycled in order to achieve self-sufficiency through careful husbanding of energy resources. Their research and development of intermediate techniques includes energy, self-help construction, waste recycling, water resources, and agriculture.

Some examples of how Xochicalli has affected nearby communities in the last several years include the following: volunteers have constructed a series of dams for erosion control; tanks for communal rain water storage have been built in three communities, as well as digestors for biological treatment of waste. Health service centers have been set up in 10 rural villages, and courses offered on preserving produce. Water recycling sistems have been added to schools in three communities, and an effective network of volunteer women promoters works in preventive medicine programas.

PROJECT DESCRIPTION

Xochicalli will extend tested ecological systems to three rural communities in Central Mexico, while disseminating information and techniques of their ten year old experiment through publications and consultancies to a mass audience in Mexico.

Foundation funds will be provided to assist in the installation or completion of a variety of ecological systems on individual and communal properties; to complete an upadated version of an ecological self-sufficient demostration house; and to publish practical manuals on energy, water, sanitation, self-help housing and agricultural technologies which have been tested and implemented locally.

Some 250 families in the three communities have requested one or another system and have committed themselves to provide materials and labor for their installation. Their houses will be equipped with water recycling systems for decontamination and irrigation purposes. Thirty anaerobic digestors will be installed to produce methane gas and organic fertilizers. Agricultural demonstration plots will be set up in the three communities. Small canning businesses will be set up to process and market new fruit and vegetable products.

The program of preventive medicine, pre-natal and post natal care will be expanded in the three communities.

Funds will be provided to chronicle the experience and to record the intricate steps in transferring, adapting and utilizing these technical innovations within the campesino milieu.

RATIONALE FOR FUNDING

Discussions on technological transfer sometimes drift into the esoteric. Too frequently, the focus is exclusively at the national level. It is true that technological decisions as to how to best harness and distribute scarce resources, resolve energy short-falls, and achieve a level of production sufficient for entire populations, is a "national"burden. Yet, as most of the dilemmas affecting development and social change, it is not exclusively a matter for technicians, nor simply a "national" question, for the consequences of "appropriate" or "intermediate" technology choices ultimately work themselves out on everyone locally, - in rural hinterlands just as much as in cosmopolitan capitals. Hence, the urgent search at all levels for techniques that are capital-saving, labor intensive, energy sparing, environmentally respectful, and easily reproduced. E.F. Schumacher articulated an important response to the question (without exhausting its implications) when he emphasized that "small is beautiful."

In Xochicalli, the Foundation encountered a group of Mexican technicians and small farmers who for 15 years have been probing and living out the principles of appropriate technological choice. We think the test of any technology lies ultimately in the degree to which it services people, enhancing their control over the resources and decisions that affect them.

Transfer of technology locally is not simple, for its is fraught with many of the same problems that confront national level decisioners. We are not certain how well many of these techniques will "transfer." But there have been some efforts that successfully maximized scarce available resources, while eliciting active interest and investment by campesinos. Thus, there are encouraging signs that the techniques are sound and their transfer feasible. This is a promising Mexican approach to rural transformation.

INTER-AMERICAN FOUNDATION GRANT

MEXICO

ME-194

GRANTEE	Promoción Ecológica Campesina, A.C.
ADDRESS	Calle San Ignacio 2438 Col. San Manuel, Puebla, Puebla México
TYPE OF ORGANIZATION	Private, nonprofit organization

FUNDING		
	IAF	$97,220
	Grantee	95,976
	Others	9,000
	Total	$202,196

DURATION Two years

DATE GRANT AGREEMENT
SIGNED: September 30, 1982
AMENDMENT NO. 1: May 6, 1983

ORGANIZATIONAL BACKGROUND

Promoción Ecológica Campesina, A.C. was founded in April, 1980. The organization grew out of the work of an anthropologist and students from the Universidad Iberoamericana in Mexico City, and a group of campesinos from the community of Muñotzla in the state of Tlaxcala. Together the team constructed and installed five appropriate technology systems in the campesinos' households. The technologies, which were developed by Xochicalli, a leading Mexican appropriate technology center and an Inter-American Foundation grantee, included: water and sewage recycling systems; water collection, heating and storage tanks; chicken and rabbit pens; pig pens with cisterns and digester; a fuel-efficient stove; and a pit for the processing of animal silage. The systems have proved effective in the conservation of energy and water, and have enabled the beneficiaries to better utilize their limited resources.

As a result of this initial success, seventeen campesinos formed their own organization, Sociedad de Producción Rural, Muñotzla Ecológico Autosuficiente, S. de R.L., in November, 1981. Working together, the two organizations now wish to disseminate additional systems to the members of the Sociedad and to other families in the community.

PROJECT DESCRIPTION

With grant funds, the Sociedad de Producción Rural, Muñotzla Ecológico Autosuficiente, will establish and manage a revolving loan fund to finance the construction of appropriate technology systems for twenty campesino households in Muñotzla. The systems will cost approximately $2,400 apiece and will consist of the six components previously described. Promoción Ecológica Campesina will provide technical, administrative, and evaluation services to the participating families to insure the proper installation and operation of the systems. The Foundation grant will capitalize the revolving fund and cover part of the salary and administrative costs of technical assistance. Promoción Ecológica Campesina, the Universidad Iberoamericana, and Xochicalli will cover the remaining costs of technical services. The participating campesinos will provide labor for construction.

RATIONALE FOR FUNDING

Agricultural production technologies that conserve or increase the supply of water, energy, and other natural resources have been developed at a moderate cost. Today these technologies take on an increased importance, as the cost of fertilizers and pesticides are placed beyond the reach of many peasant families. This is particularly true in Muñotzla, a community in which most families have one hectare or less of land and which has one of the highest population densities in México - 131 inhabitants per square kilometer. The new technologies have enabled the campesinos to increase production and incomes, thereby drawing other families into the community.

The Inter-American Foundation supports this project because it provides for a wider demonstration of moderately priced technologies in rural areas, involves the beneficiaries in construction and installation, and insures further dissemination of the results to a larger development community.

INTER-AMERICAN FOUNDATION GRANT

MEXICO

ME-188

GRANTEE Farmworkers Economic Development Corporation (FEDC)

ADDRESS
P.O. Box 819
El Mirage, Arizona 85335

TYPE OF ORGANIZATION Private, non-profit

FUNDING

IAF	$ 423,840
Grantee	511,420
Others	659,400
Total	$1,594,660

DURATION Three years

DATE GRANT AGREEMENT SIGNED: May 11, 1982
AMENDMENT NO. 1: March 28, 1983
AMENDMENT NO. 2: August 8, 1983

ORGANIZATIONAL BACKGROUND

The Farmworkers Economic Development Corporation (FEDC), a non-profit organization made up of Mexican migrant farmworkers, was licensed in the state of Arizona in 1980. The Corporation channels funds to education, health, and agricultural development projects in the villages of Mexico from which the workers come. The Corporation grew out of the Arizona Farmworkers Union, which represents many of the nearly 10,000 Mexican farmworkers in Maricopa County, Arizona who migrate annually to work the citrus orchards from October to March. In recent years farmworkers and growers alike have recognized that this citrus-producing region around Phoenix, which for decades has offered seasonal work to Mexican migrants, is rapidly being paved over and peopled with suburbs. The farmworkers, seeking alternative sources of income, are focusing on the economic development of the Mexican villages to which they return.

The Corporation is financed by a portion of the hourly wages earned by the workers, by voluntary contributions of U.S. growers, and by Mexican private and public agencies. With these funds, the Corporation is supporting a range of projects in communities in central Mexico to increase agricultural production, establish small local industries, develop health care programs and provide training to paramedics and midwives, and educate the farmworkers and their families about financial, technical, and legal resources available to them in Mexico.

Examples of the Corporation's recent efforts include: 1) farmworkers from a village in the state of Sinaloa used Corporation funds to purchase housing materials and have built

25 new homes in the community; 2) workers from two rural communities in the state of Guanajuato have completed the initial work for the construction of wells and irrigation systems to increase agricultural production and to introduce high-yielding citrus stock; and 3) groups in the state of Querétaro are completing construction of two consumer cooperative stores and a secondary school, and are organizing a taxi cooperative to link their isolated rural villages. The Corporation also has sent medical teams, made up of Mexican and U.S. public health specialists, to the members' communities and villages to assess health care needs. Phoenix secondary school students have contributed funds to build a rural schoolhouse in one community, and the El Paso maternity clinic has begun training courses for midwives. In addition, several Mexican governmental agencies have trained the farmworkers in small business management, provided technical assistance and permits for the irrigation program, and have supplied a wide variety of educational materials.

PROJECT DESCRIPTION

The Inter-American Foundation grant will provide the Farmworkers Economic Development Corporation with funds to administer and to expand its educational, health, and agricultural development projects in the communities of central Mexico from which the farmworkers come.

IAF funds will pay the salary, travel, and per diem expenses of one full-time project coordinator of the FEDC, to be located in Mexico; the costs of training programs in welding, well drilling and midwifery both in Mexico and in Arizona; the purchase of 40 sewing machines for cooperatives in eight Mexican villages, and educational materials. The Foundation will contribute $52,000 to the development fund to match contributions of the farmworkers. The fund will be utilized for new community education and development projects in the farmworkers' communities in Mexico. Other counterpart funds will be provided by Arizona growers, who will provide technical assistance, credit, and nursery stock for citrus production in the states of Querétaro and Guanajuato. The Arizona Farmworkers Union will provide a staff member to coordinate the overall program and administrative support.

The program will be directed by the Board of Directors of the FEDC, which is elected by the members of the Arizona Farmworkers Union and is comprised of five representatives from the State of Arizona, twelve from the state of Guanajuato, seven from the state of Querétaro, and three from the state of Sinaloa.

RATIONALE FOR FUNDING

The ties between Mexico and the United States grow more complex each day, especially in the "borderlands." The intertwining of commerce and culture, politics, and economics tend to blur formal boundaries. Labor is a key ingredient in the mix. In urban areas, the in-bond or twin plants phenomenon has been an important employer, and, for many years, U.S. agribusiness has drawn upon the Mexican rural labor pool through the "bracero" program and other types of arrangements.

Nevertheless, labor relations, markets, and agriculture change. In the Phoenix area, agriculture confronts a new challenge, as citrus orchards cede to the expansion of the suburbs. The migrant field workers who spend five to six months annually in Arizona recognize the need for the development of productive activities in their own home communities, most of which are located in the near-desert and semi-arid highlands of central Mexico.

The FEDC program illustrates both the complexities of U.S.-Mexican linkages and the ingenuity that has been tapped. The Arizona Farmworkers Union, some far-sighted growers, and public and private agencies on both sides of the border have begun to collaborate to increase agricultural production and develop the potential of rural communities in Mexico.

The Inter-American Foundation supports this project because it represents an unusually innovative and potentially replicable approach to help Mexican migrant farmworkers develop their own communities.

APPROPRIATE TECHNOLOGY PROJECT

Mr. MASHEK. One of the projects that I know about stemmed from what is usually called in this business an "appropriate technology" project, involving some degree of experimentation in making materials—for example, irrigation ditches and water drainage—out of local materials, getting the community involved, having residents put in, design with some technical help, build, and put in what in effect is their own urban infrastructure. In appropriate technology projects grantees try to fabricate the hardware with local raw material and personally take charge of the project.

Senator KASTEN. I would appreciate it if you could send us more detailed information. I thank you for the answer.

Mr. MASHEK. Surely. I unfortunately have not had the chance to be able to see these projects myself.

NICARAGUA

Senator KASTEN. Let me just quickly switch to Nicaragua. The justification material notes that $383,000 was expended in 1983 in Nicaragua. During our hearings last year we spoke about the ongoing programs in that country.

Are you still successful in working with local businessmen in Nicaragua and the private sector in Nicaragua? Just to preface that, when I traveled to Nicaragua this January I was told by a number of businessmen there that they were concerned, I guess you could even say they were worried, that the Sandinista government would eventually eradicate the entire private sector, that there would be nothing left but a sham or shell.

Have you or your organization noticed a change in that country, let us say 1982, to 1983, to the present time? Are you seeing a private sector that is in fact being starved out, or are you seeing an attitude that you look at as being basically positive or healthy; that there might be a chance that despite the government the private sector might be able to hang on?

Lastly, I am interested in your plans in that country, your plans in Nicaragua for, let us say, the next year or year and a half.

Mr. MASHEK. I do not think I am prepared to answer your question globally in terms of what is the changing quality of the private sector as a whole in that country. The bulk of our support over the years and for that year, 1983, has gone to the largest private development organization, Funde, the national development foundation, which is run by the business and private professional sector.

It is a rather unique organization. It made its way one way or another in the Somoza years and it continues to be active and to run a successful program. $353,000 of the $383,000 for fiscal year 1983 went to that organization as a supplemental grant, and there was one other to the Sisters of Mercy in one area to carry out a health program, training of midwives.

It is a slightly more difficult situation to work in, in that it is more difficult for us to find organizations that are able to independently and well go about doing their business.

Senator KASTEN. Can you answer the second part of my question as to what your plans look like for the next year or so?

Mr. MASHEK. Our plans are to continue to be in contact with those private organizations in Nicaragua that can do work among the very poor—development work. We just made a grant to INCAE, the school for business administration, to give financial analysis, management training to representatives of private sector organizations, including rural cooperatives.

That is another way of supporting those organizations. So we plan to try to continue.

Senator KASTEN. Through the same basic channels, at least for the time being?

Mr. MASHEK. That is right.

SUBMITTED QUESTIONS

Senator KASTEN. There are also some questions that I am going to submit to you for the record having to do with some specifics on some of the programs, and, as I said, there may be other questions that will come from other members of the committee, but I thank you for your testimony and for your statement here today.

[The following questions were not asked at the hearing, but were submitted to the Foundation for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

Senator Kasten: Your budget request for FY 1985 is $11,992,000, $1,008,000 less than what was appropriated for FY 1984. If the Congress appropriates the requested amount, what will the affect be on planned projects? Will you have to pull out of any countries or cut back on staff?

Mr. Mashek: The Foundation's budget request for Congressional appropriations, which is in accordance with the President's recommendation, does represent a reduction in the number of projects which the Foundation will be able to support in several countries in Latin America and the Caribbean in FY 1985. The Foundation does not anticipate, however, that this reduction will result in staff cut-backs or country pull-outs.

The Foundation's annual budget is composed of two parts; the Foundation receives funds annually from Congress, and since 1974, it has also enjoyed access to the Social Progress Trust Fund administered by the Inter-American Development Bank. SPTF funds, however, are not available in most of the Caribbean and in Chile, where the IAF has a fairly active portfolio; are available only in small amounts in Paraguay and Bolivia; and are restricted to a few program areas. For example, SPTF monies cannot be used to fund small urban-based business projects or for administrative expenses. Therefore, a reduction in Congressional appropriations will signify some decrease in funding activity in countries such as Chile, Bolivia, Paraguay, and the Caribbean nations of the Dominican Republic and Haiti. The Foundation's total FY 1985 program budget, despite the above listed individual reductions, should keep pace with 1984 levels as SPTF funding increases in Brazil, where the IAF has recently resumed operation and expects an increasing number of worthwhile proposals.

It is important to note that the Foundation continues to have active portfolios in both the Dominican Republic and Haiti in part as a result of Congress' $2 million set-aside for the IAF in Caribbean Basin Initiative funds during FY 1983 when the IAF received a total of $14 million in Congressional appropriations.

Senator Kasten: I see from your justification material that a total of $951,000 went to "other Caribbean" countries during FY 1983, which included Grenada. Can you give us a summary of the program in Grenada, and are there any projects planned in that country for FY 1984? FY 1985?

Mr. Mashek: In FY 1983 the Inter-American Foundation amended a previous grant of $5,660 to the Sauters Day Nursery Parent's Club, adding $3,540 to enable the Sauters Sewing Cooperative to purchase sewing machinery and purchase materials for its school uniform production project. The project was sponsored, and our grant agreement co-signed, by the local Canadian Save the Children office, whose director, Ms. Joan Purcell, has become a key education spokesperson in the country's interim government. The IAF did not make any other grants in Grenada during FY 1983.

The Foundation has yet to receive any proposals for new funding in Grenada in FY 1984, however, the Foundation's representative for the Caribbean will travel to the country later in the year to assess funding prospects.

The IAF has made eight grants in Grenada from 1973 to 1982 for a total funding of $88,452. Grantees include four small agricultural or food processing cooperatives, two educational organizations, and two development promotional groups. The majority of the Foundation's funding has involved rural beneficiaries. All projects have been small; only one grant has been over $10,000, $54,500 awarded to the Extra-Mural Department of the University of the West Indies to complete the formation of an educational and cultural center. In addition to the above, one IAF Fellow has conducted field research in Grenada. This same student received Masters and Ph.D. fellowships to study bi-lingual teaching and learning in the Grenadian dependent island of Carriacou.

Senator Kasten: By far the largest program from FY 1971 through FY 1983 has been in Chile. Can you tell us why Chile has received so much attention? You have spent over $11 million more there than in any other country. Has there been more interest shown by the private sector sector of Chile than in other countries?

Mr. Mashek: Chilean organizations have received large amounts of funding from the IAF primarily because the network of grassroots groups and development support institutions in Chile is more extensive than in other Latin American countries. This network emerged from a long tradition of cooperative organizations, particularly among peasant groups. It was consciously promoted and nurtured during the 1960's and the early 1970's by government support. In the mid-1970's, when the IAF began making grants in Chile, government support for social and economic development activities declined sharply, and many worthwhile local groups and the national associations that worked with them turned to the IAF and other external funders for assistance.

From 1974 through 1980, the Foundation's funding primarily supported a network of rural cooperatives involving low-income farmers and a newly-emerging group of small enterprises that were owned and managed by their workers. Many grants went to institutions that provided credit and technical assistance to the cooperatives and enterprises.

Since 1981, the IAF's annual funding in Chile has declined (from an average of more than $3.3 million per year from 1976 through 1980 to less than $2.5 million per year over the last three years) and has been mainly directed to local and community organizations including peasants' associations, small urban enterprises, and women's groups.

SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will now stand in recess until 10 o'clock tomorrow morning when we receive testimony from the Honorable Donald T. Regan, the Secretary of the Treasury.

Thank you very much.

[Whereupon, at 3 p.m., Wednesday, March 14, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, March 15, 1984.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 15, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 11:10 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

DEPARTMENT OF THE TREASURY

STATEMENT OF HON. DONALD T. REGAN, SECRETARY OF THE TREASURY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This morning we will continue our hearings on the administration's 1984 supplemental and the fiscal year 1985 budget request for those items under the jurisdiction of this subcommittee, with testimony from the Honorable Donald T. Regan, the Secretary of the Treasury.

Mr. Secretary, before you begin your statement, I would like to compliment you on the forthright position that you took on behalf of the United States in the IDA-VII negotiations. I think that that reflected the mood and the concern of Congress.

I just want to compliment you for being forthright, for being pragmatic, and for telling the rest of the people the facts. I thank you for that. I think as a result what may have been one of the more contentious subjects that you have had or that we have had between the administration and the Congress might be easier to work through.

I know you have come under a great deal of criticism, but you should know that many of us up here strongly support your position. I think that it was both realistic and proper. If the World Bank manages those funds correctly, it will be able to provide, I believe, the necessary resources for development to the countries that need it the most. Once more, I compliment you for your action.

Mr. Secretary, as you know, your entire statement will be included in the record. I would ask that you might summarize it and hit some of the high points, and then we can proceed to questions.

It is a pleasure to have you before the subcommittee this morning.

BUDGETARY PROPOSALS FOR MULTILATERAL DEVELOPMENT BANKS

Secretary REGAN. Thank you, Mr. Chairman. I appreciate those words on the IDA–VII negotiations, and I stand ready during the questioning period to answer any questions you might have about that. I am giving just a brief summary of my longer statement, which I have submitted for the record.

I am appearing before you today, Mr. Chairman, to present the administration's budgetary proposals for multilateral development banks for the fiscal years 1984 and 1985. I understand the committee prefers this very brief statement.

OBJECTIVES IN MANAGING U.S. PARTICIPATION IN MDB'S

Since taking office, the administration has had three fundamental objectives in managing U.S. participation in the MDB's:

—First, to encourage the MDB's to offer sound economic policy guidance in implementing their lending programs;

—Second, to apply the same budgetary review to the MDB programs as to other elements of the U.S. budget; and,

—Third, to cooperate with interested members of the Congress in development of a broad bipartisanship consensus behind these programs that are so essential to U.S. foreign economic policy.

These have been and continue to be the guideposts of our stewardship.

REPLENISHMENT AGREEMENTS

The administration has now negotiated seven replenishment agreements since taking office. I believe they demonstrate strong U.S. support for these programs, as well as a prudent budgetary posture. The annual appropriations requirements for these seven hard and soft loan window replenishments have been reduced from about $1.5 billion to about $1.1 billion.

In the fiscal year 1984 supplemental request, the administration is seeking $319.6 million in budget authority and $794.5 million under program limitations. For fiscal year 1985, we are seeking $1,235.6 million in budget authority, and $2,889.5 million under program limitations. I will submit the detailed request for the record, but I would like to discuss briefly my thinking on cooperation with the Congress.

One of the three objectives I have had in managing U.S. participation in the multilateral development banks is to cooperate with Members of the Congress in order to fashion an enduring and bipartisan consensus in support of these programs, and in order to implement the will of the Congress effectively in managing these programs.

The MDB's have a clear and permanent role to play in the U.S. foreign assistance program. Their special strengths are their ability to share broadly the cost of development assistance among the industrialized countries, and their capacity to encourage greater reliance on market-oriented policies by borrowing countries.

The MDB's effectively compliment the other elements of our foreign assistance program quite closely. For example, the United States extended bilateral assistance in 1983 to 41 of the 44 countries which borrow from IDA. The U.S. bilateral assistance provided $2.1 billion to its borrowers, while IDA provided $3.3 billion.

CARLUCCI COMMISSION REPORT

Mr. Chairman, the recent Carlucci Commission Report, to which you made important contributions, emphasized the complimentary nature of the various elements of U.S. foreign assistance programs and the importance of close executive and legislative branch cooperation.

The President, the Secretary of State, and I have sincerely appreciated the cooperation that this committee has given to the administration's programs in the past. I am convinced that such cooperation is essential, and I have stressed this point in the conduct of U.S. policy toward the MDB's.

I hope you feel a sense of satisfaction with our progress toward this objective. Now is the time when we need you to do your part again by funding these internationally negotiated undertakings.

I stand ready for questions, Mr. Chairman.

[The prepared statement of Secretary Regan follows:]

PREPARED STATEMENT OF HON. DONALD T. REGAN

SECRETARY OF THE TREASURY

Mr. Chairman, I am appearing before you today to present the Administration's budgetary proposals for the multilateral development banks (MDBs) for fiscal years 1984 and 1985.

Since taking office, the Administration has had three fundamental objectives in managing U.S. participation in the MDBs:

-- to encourage the MDBs to offer sound economic policy guidance in implementing their lending programs,

-- to apply the same measured budgetary review to the MDB programs as to other elements of the U.S. budget, and

-- to cooperate with interested Members of the Congress in developing a broad bipartisan consensus behind these programs that are so essential to U.S. foreign economic policy.

These have been and continue to be the guideposts of our stewardship.

We have made some progress toward achieving our objectives in each of these areas, but I am frankly not satisfied. Today, I want to review with you these objectives and to stress particularly the third area: cooperation between the Executive and Legislative Branches.

STRENGTHEN ECONOMIC POLICIES

The Administration's support for the MDBs is designed to encourage adherence to free and open markets, to emphasize the private sector as vehicle for growth -- with minimal government involvement -- and to concentrate assistance on the needy who are willing to help themselves. This policy approach is based on the Administration's assessment of the MDBs which was published in 1982.

In many respects, the chief strength of the MDBs is not the financial resources which they provide, but the potential impact of their market-oriented economic policy advice and of their institution building and technical assistance efforts. Here is where multilateral assistance can be most effective, and here is where we have sought to direct their attention with some success. However, a good deal remains to be done.

For example, when the Administration took office, we succeeded in discouraging an ill-advised proposal for a World Bank energy affiliate. But we continue to have serious reservations about the appropriateness of lending scarce IBRD and IDA resources for energy production and development projects which are clearly capable of attracting alternative financing.

As another example, the pricing policies of financial institutions and public utilities that benefit from MDB lending have been a central concern of this Administration. The Asian Development Bank has traditionally had sound policies in this area. We have worked hard to strengthen these pricing policies in the Inter-American Development Bank over the last two years and are quite satisfied with the Bank's progress. And we are beginning to make some headway in encouraging stronger policies in the African Development Bank on these issues. We continue our efforts to strengthen the World Bank's traditionally firm policies in this area.

Since taking office, the Administration has opposed 49 loans in the MDBs for economic or financial reasons. We are often asked whether the loans were defeated. Unfortunately, the practice of explicit opposition to formal loan proposals in the MDB Boards is not firmly established.

Nonetheless, we believe we are being effective when we oppose loans for economic or financial reasons. We find that Directors representing other countries frequently support our substantive points, even if they do not cast a negative vote. You can well imagine that a project officer, who may present one or two loans a year to the Board, finds the pointed criticism an embarassing experience which he will seek to avoid in future projects. Senior bank managment can also ill-afford to see one of its largest shareholder -- joined by others -- regularly criticizing its project proposals. I am convinced that a sound and consistent approach to loan analysis by the United States is having the desired effect: to strengthen the policy advice that the MDBs convey to their borrowers.

Administration efforts to strengthen the economic policy role of the MDBs have not been limited to efforts to alter existing policies or practices. For the last two years, the Administration has been discussing the creation of the Inter-American Investment Corporation (IIC) with other members of the Inter-American Development Bank (IDB).

The IIC will be designed to invest, through loans or equity participations, in firms in Latin America and the Caribbean, that are majority owned and controlled by the private sector. There is a general consensus that the IIC should concentrate on small and medium sized firms -- those typically finding it difficult to obtain capital.

In all candor, my initial reaction when I heard of the idea is that the last thing we need is another financial institution. However, we have worked to structure the program so that it will have the independance necessary to provide rapid and real help to private entrepreneurs with a minimum of bureaucracy.

Although an independent institution with its own articles of agreement, small staff and voting process, the IIC will be more like a "window" of the IDB than a totally new institution. The IDB will provide administrative and logistical support and will serve as a source of information on broad economic developments in member countries.

In addition to financing, the staff -- which will have business experience in Latin America or the Caribbean -- will provide advisory services to firms in order to nurture a strongly self-reliant and market oriented approach to commerce, industry and agro-business.

Economic development is overwhelmingly a question of mobilizing local human and financial resources. The objective is to find the right policies which encourage individuals to work, save and invest. To the extent that the MDBs can help countries find and implement these policies, they have been and will continue to be successful, and it is on that basis that we support them.

MEASURED BUDGETARY REVIEW

Of course, a certain level of financial resources is an important complement to encourage the implementation of the right policies in borrowing countries. Exactly what that level should be is not at all obvious. But we are satisfied that, given the potentially large benefits from the pursuit of sound economic policies, we are proposing funding levels to support lending programs that are adequate to achieve the objective of ensuring effective institutions.

The Administration has now negotiated seven replenishment agreements since taking office. I believe they demonstrate strong U.S. support for these programs as well as a prudent budgetary posture.

The annual appropriations requirements for the seven hard and soft window replenishments have been reduced from about $1.5 billion to about $1.1 billion. To support overall lending programs, annual requirements for callable capital subscriptions, which are provided under program limitations contained in appropriations acts, have increased from $819 million to about $1.5 billion.

Taken together, these seven replenishment agreements provide 11.7 percent more, in terms of subscriptions and contributions, than the previous agreements for these same programs. Since these are three or four year agreements, the net effect is that our contributions and subscriptions for these programs will grow a shade less than the rate of inflation. But, in view of our budgetary situation and the necessary efforts to trim programs throughout the government, this seems reasonable. And the continued growth in the programs in the coming years certainly belies the notion that the MDBs run the risk of being "crippled" by a shortage of funds.

In line with the conclusion of the Administration's assessment, the current replenishment agreements reflect a marked shift in program emphasis. But a conclusion that the Administration is "out to get" the concessional programs or does not care about the poorest countries would be in error.

A close examination of the most recent replenishments for the soft loan windows reveals that the Administration has sought to expand funding for the two poorest regions:

-- In Africa, we agreed to a 20 percent increase in the third replenishment to the African Development Fund (AFDF), and we are contemplating a larger increase for the fourth replenishment which is currently being negotiated;

- -- In negotiating the IDA VII replenishment, we have urged increased emphasis on the countries of Sub-Saharan Africa;

- -- In Asia, we agreed to a 16.9 percent increase for the concessional Asian Development Fund.

The 26.6 percent reduction in budget authority for the MDBs in current replenishments, compared to previous replenishments, has been, in large measure, a result of Administration positions in the negotiations for IDA VII and the Fund for Special Operations (FSO) of the IDB. And there are solid program reasons for these positions.

The scale of IDA lending has grown dramatically over the last two decades. The strength of the IDA program is the potential positive impact of its market oriented policy advice in borrowing countries. It was not obvious to us that the lending program growth rates of the past needed to be continued in order to maintain IDA's effectiveness. We are satisfied that the $750 million annual U.S. contribution to the $9 billion, three year negotiated replenishment will preserve IDA's prominent role in borrowing countries. IDA will continue to be the single most important source of external financing for most of its borrowers.

A second consideration in the case of IDA was the need to make better use of IDA resources. We have been working vigorously, both in the replenishment negotiating process as well as in the policy and lending discussions at the IDA Board, to encourage a more efficient allocation of funds.

The process of economic development is exceedingly complex, and, over time, the policies pursued at the microeconomic level can have a significant impact on growth rates. To strengthen IDA lending policies, we have emphasized lending to countries which are pursuing policies that make the maximum use of individual incentive and market forces. We have been willing to back up our efforts with "no" votes on credits at the IDA Board when the situation warranted.

We have stressed the importance of concentrating lending on the poorest countries that lack the creditworthiness to borrow on harder terms, but which have relatively effective economic policies in place. And here we are seeing some positive results.

Since 1981, we have seen the maturation of four countries from IDA into full reliance on the hard window of the World Bank for development assistance. Two more countries will cease borrowing from IDA when the IDA VII replenishment goes into effect.

We have also succeeded in strengthening the emphasis of the IDA lending program on Sub-Saharan Africa -- the region with the largest number of countries lacking the creditworthiness to borrow on harder terms. This region received 31.9 percent of IDA lending in 1981 through 1983, compared to 23.7 percent in 1978 through 1980.

Finally, there has been reasonable progress in reducing the share of IDA lending going to such countries as India which have sufficient creditworthiness to borrow more heavily from the IBRD hard window than in the past. India's share of IDA has declined from the traditional 40 percent to 32 percent in 1983. We expect further progress along these lines.

In summary, the reduced level of U.S. funding for IDA is, in part, a recognition that the IDA lending program is sufficiently large to perform its main function: to serve as a basis for maintaining World Bank influence in countries that borrow from IDA. In part, the tightening of lending policies will target IDA more precisely on the poorest countries that can most effectively use the assistance.

The reduction in the Fund for Special Operations (FSO) of the IDB recognized a simple fact. Most of the countries that have been receiving FSO convertible currency resources have significantly higher per capita incomes than the borrowers of other concessional programs. To continue to provide concessional assistance to borrowers in Latin America and the Caribbean on the scale of past replenishments is simply a poor allocation of scarce resources.

The program adjustments in IDA and the FSO reflect sound policy and will result in better targetted lending programs which accord with the budgetary constraints that we and other donors face.

THE FISCAL YEAR 1984 AND 1985 BUDGET REQUESTS

The replenishment agreements I have been discussing are the principal bases for the Administration's requests for fiscal year 1984 and 1985. In conducting negotiations, the Treasury Department staff was instructed to inform the Committee of all developments and to seek your views on the U.S. negotiating positions. In receiving the views of Members of the Congress, the Treasury Department staff was also directed to bear in mind the need to obtain broad bipartisan support for the MDB programs.

I hope these instructions were carried out to your satisfaction because I am convinced that U.S. influence in these institutions will not endure a continuation of the chronic U.S. inability to meet negotiated commitments that we have witnessed in recent years. I trust you support these replenishments solidly, even if you -- and we -- continue to have reservations about aspects of the MDB programs. Our obligation now is to meet our negotiated undertakings.

In a fiscal year 1984 supplemental request, the Administration is seeking $319.6 million in budget authority and $794.5 million under program limitations. For fiscal year 1985, we are seeking $1,235.6 million in budget authority and $2,889.5 million under program limitations.

International Bank for Reconstruction and Development (IBRD)

For the IBRD, the Administration is seeking a fiscal year 1984 supplemental request of $30 million in budget authority and $370.0 million under program limitations to complete the third of six installments for the U.S. share of the 1981 General Capital Increase of the Bank. For fiscal year 1985, the Administration is requesting $109.7 million in budget authority and $1,353.2 million under program limitations for the fourth installment.

Subscription to IBRD shares is essential in order to maintain the U.S. veto over amendments to the Articles of Agreement of the Bank.

International Development Association (IDA)

In a supplemental request for fiscal year 1984, the Adminsitration is seeking $150 million to complete the U.S. contribution to the sixth replenishment. For fiscal year 1985, the Administration is requesting $750 million for the first of three installments for the $2.25 billion U.S. share of the $9 billion seventh replenishment.

Inter-American Development Bank (IDB)

In a supplemental request for fiscal year 1984, the Administration is seeking $20 million in budget authority and $424.5 million under program limitations to complete the first of four installments to the 1983 capital increase of the IDB. For fiscal year 1985, the Administration is requesting $58.0 million in budget authority and $1,231.0 million under program limitations for the second installment.

The lending program based on the 1983 capital increase is designed to continue strong support for the long term development of the countries in Latin America and the Caribbean.

Fund for Special Operations (FSO)

In a supplemental request for fiscal year 1984, the Administration is seeking $72.5 million for the first of four installments for the 1983 replenishment. For fiscal year 1985, the Administration is requesting $72.5 million for the second installment.

The FSO replenishment is designed to address the long term development needs of the poorest countries of Central America and the Caribbean. Without U.S. contributions, the 1983 replenishment can not come into effect. Since January 1, 1984, the FSO has been unable to undertake any lending for the countries of this region under the new replenishment.

Inter-American Investment Corporation (IIC)

For fiscal year 1985, the Administration is seeking the first of four installments for the initial U.S. subscription for the IIC. The President's January budget message tentatively recommended an annual appropriation of $20 million. Negotiations for the IIC have now been finalized; the U.S. subscription will be $51 million over four years and the installment needed in 1985 is $13 million. A budget amendment reflecting this change will be submitted in the near future.

The Administration has strongly supported the IIC as a practical means of enhancing the capacity of the IDB to aid the private sector in borrowing countries. The investment program will provide loans and equity participation for privately controlled firms in Latin America and the Caribbean. U.S. participation is essential for creation of the program, and there is strong support for the proposal from other IDB member countries.

Asian Development Bank (ADB)

For fiscal year 1985, the Administration is seeking $13.2 million in budget authority and $251.4 million under program limitations for the second of five installments for the 1983 General Capital Increase.

The ADB is a key institution in one of the most economically dynamic and politically sensitive regions of the world. Active and positive U.S. participation has served U.S. interests well.

Asian Development Fund (ADF)

In a supplemental request for fiscal year 1984, the Administration is seeking $14.1 million toward completing U.S. contributions to the second replenishment and $33 million to complete the first of four installments to the third replenishment. For fiscal year 1985, the Administration is requesting $130 million for the second installment to the fourth replenishment and $14.1 million to complete U.S. contributions to the second replenishment.

The ADF has supported well designed and effective development projects in some of the poorest countries in in the world. U.S. support benefits the people of such countries as Pakistan and Sri Lanka as well many of the strategic island countries in the Southern Pacific. The supplemental request will eliminate all remaining previously unfunded commitments to the ADF.

African Development Bank (AFDB)

For fiscal year 1985, the Administration is requesting $18.0 million in budget authority and $54.0 million under program limitations for the third of five installments for the initial U.S. subscription for the AFDB.

The AFDB is visible evidence of U.S. commitment to work with the countries of Africa for the achievement of their long term development objectives.

African Development Fund (AFDF)

For fiscal year 1985, the Administration is seeking $50 million in budget authority to complete U.S. contributions to the third replenishment.

The AFDF provides support exclusively to the majority of the world's poorest countries. The program plays an important role in the development plans of most of the countries in Sub-Saharan Africa.

THE FISCAL YEAR 1984 SUPPLEMENTAL REQUEST

The supplemental request for the IDB, for the FSO and for the ADF are to complete installments for agreements negotiated by this Administration. If we fail to provide the amounts requested, other countries will not be obligated to provide portions of their pledges and the lending programs may be sharply curtailed. The FSO, in particular, has been unable to commit resources from the new replenishment since the first of January.

We have subjected these programs to close budgetary scrutiny before concluding these agreements. Our 1982 assessment of the MDBs laid out clearly the budgetary principles under which we would conduct replenishment negotiations.

We have made an earnest effort to consult closely with the concerned Members of the Congress in conducting our assessment and the replenishment negotiations. Now, we need your support by providing the agreed funding resources.

The supplemental requests for the IBRD and for IDA VI will provide the U.S. share for replenishments which were negotiated by the previous Administration. The controversy over these programs has been extensive. But these remain internationally negotiated undertakings of the United States. Let's put the controversy behind us and complete the funding of the fiscal year 1984 installments.

I urge your support for these supplemental requests.

EXECUTIVE-LEGISLATIVE CONSULTATIONS ON THE MDBS

I have stressed today that one of the three objectives I have had in managing U.S. participation in the MDBs is to cooperate with the Members of the Congress in order to fashion a broad and enduring bipartisan consensus in support of these programs and in order to implement the will of the Congress effectively in managing these programs.

The MDBs have a clear and permanent role to play in the U.S. foreign assistance program. Their special strengths are their ability to share broadly the cost of development assistance among the industrialized countries and their capacity to encourage greater reliance on market oriented policies by borrowing countries.

The MDBs effectively complement the other elements of our foreign assistance program quite closely. For example, The United States extended bilateral assistance in 1983 to 41 of the 44 countries which borrowed from IDA. U.S. bilateral assistance provided $2.1 billion to its borrowers, while IDA provided $3.3 billion.

Mr. Chairman, the recent Carlucci Commission report, to which you made important contributions, emphasized the complementary nature of the various elements of the U.S. foreign assistance program and the importance of close Executive and Legislative Branch cooperation.

The President, the Secretary of State and I have sincerely appreciated the cooperation that this Committee has given to the Administration's programs in the past.

I am convinced that such cooperation is essential and and have stressed this point in the conduct of U.S. policy toward the MDBs. I hope you feel a sense of satisfaction with our progress toward this objective because now is the time when we need you to do your part again -- by funding these internationally negotiated undertakings.

Thank you.

ECONOMIC STABILIZATION PROGRAMS FOR CENTRAL AMERICA

Senator KASTEN. Mr. Secretary, thank you.

What has been the experience of the International Monetary Fund in the overall economic stabilization programs for Central America? In different ways, at different times, they have been putting in requirements. Have the recipient countries in Central America complied in general with the IMF requirements?

Secretary REGAN. Many have.

Senator KASTEN. Let me just finish. I am going to ask one more question, and then you can respond to the whole group together.

Have the recipient countries complied with the requirements?

Given the economic needs, which are in the Kissinger Commission Report, why hasn't the IMF provided more balance-of-payments support in addition to imposing some of these requirements?

I guess the first question is, how are we doing in terms of complying with the requirements; and, second, why aren't we giving more balance-of-payments support?

Secretary REGAN. First of all, from an overall point of view, the IMF has had to treat most of these countries as individual countries because each differs somewhat from the other. They are not homogeneous in their financial conditions. Some are more advanced than others. Some are one crop economies, and others are more diverse as far as their manufacturing or agricultural production is concerned. What the IMF has attempted to do is to cut an individual program for each country, not to combine them all into one.

The first thing the IMF looks at, of course, is the rate of inflation in the country, what is causing it, and how can the country get it down. Then the IMF looks, obviously, at the rate of unemployment; how can the country get that down, and what can be done about production.

If the IMF sees that a country is importing too much in relation to the foreign exchange that it is earning, the IMF knows well that there are very strong inflationary pressures in that country. Accordingly, the IMF asks the country to restore a better external balance. By the way, this causes a lot of trouble for some of our exporters. Nonetheless, the IMF feels that balance is the right goal.

As far as monetary equilibrium is concerned, you have to look first domestically to see whether the country is increasing the money supply too much. There is no way that the IMF can be helpful if the country inflates its economy.

I would have to say that the IMF has done a lot of good in Central America, but a lot more can be done.

BALANCE OF PAYMENTS SUPPORT

Senator KASTEN. What about in terms of the balance-of-payments support; are you satisfied that the IMF is providing as much balance-of-payments support as they might be able to do, or do we try to encourage them to provide more?

Secretary **REGAN**. We have been encouraging the IMF to do more, but only when cooperating with the country itself to take the necessary domestic measures in order to right the balance of payments in conjunction with the help that the IMF can give. In other words, if there are not self-correcting measures taken, there is nothing that the IMF can do just by throwing money at the problem.

IMF TAX ADVICE TO FOREIGN COUNTRIES

Senator **KASTEN**. A number of us who have been part of the last couple of years of tax reductions and emphasis on work, investments, and savings in this country are concerned that a lot of the IMF advice seems to be essentially Keynesian advice, that, in fact, we go into a country and say: "OK, increase your tax rates, do this, do this, do this," all of which is, No. 1, contrary in some cases to what we have done in this country and, No. 2, contrary to what we have tried to do in so many of these countries.

Could you comment? You have been one of the leading supply-siders, and basically I have been voting to support you and the administration on these tax issues. But so many times it seems to me that the IMF advice is advice which is contrary to that which we ourselves are going through.

Secretary **REGAN**. Again, all countries are not the same, so we have to take more or less a hypothetical country in discussing this problem.

From our point of view, there are many things that the IMF philosophically does that we wouldn't do in a capitalist, free enterprise system, but the IMF has to take the country as it finds it. Many of these countries have dictatorship types of government, from the left or the right. Accordingly, they have to deal with that as they find it. The IMF cannot change the political system.

Second, the IMF, when it helps a country, finds that many times the economies and institutions of countries are rudimentary and relatively ineffective at that stage of the country's growth. The IMF has to accept that and work out a solution. If the country were a more developed nation, such as ours, the IMF could suggest a lot of other measures.

Third, tax evasion, not avoidance but tax evasion, in most of these countries is rampant. Those who should be paying taxes literally don't. The net result is that while theoretically the tax base is there to help toward balanced budgets, obviously, people are not paying their taxes. So the IMF takes the easy way out by saying, "Raise your taxes," rather than what they should be doing, which is saying, "Broaden your base and collect the taxes that are due to you." That is why you see such high tax rates.

The overall objective of the IMF teams is to balance budgets. In many of these countries, particularly the poorer ones, it is only the state that can provide much of the infrastructure. The countries don't have the sophisticated private companies that we do to absorb employment and to build infrastructure. Therefore, the state enterprises are the ones that the IMF has to deal with. It is unfortunate, and we would prefer it otherwise, but you have to take what you find when you get into the country.

GROWTH-ORIENTED PRIVATE SECTOR EFFORTS

Senator KASTEN. Are we, are you, and are our representatives at the IMF trying to express as positively as we can the growth-oriented private sector efforts that we believe in to those countries?

Secretary REGAN. By all means, that is one of the things that our Executive Director has been instructed to and is very alert to—don't vote for projects that agrandize the state at the expense of private enterprise, and try to promote, where possible, open-borders in order to allow, not just U.S. companies, but other foreign companies into the country to work either jointly or independently of the local private sector.

CHINA MEMBERSHIP IN ASIAN DEVELOPMENT BANK

Senator KASTEN. Let me switch subjects, Mr. Secretary. Last year, in response to concerns that I expressed about the desire of the People's Republic of China to become a member of the Asian Development Bank at the expense of Taiwan's membership, you indicated to the committee that if the PRC were able to engineer the expulsion of Taiwan that you would have to reconsider your position with regard to the Asian Development Bank and American participation in it.

What is your position on this matter now? Can you give us an update on this issue?

Secretary REGAN. Yes; as a matter of fact, Mr. Chairman, as you know, I leave for China on Saturday morning, and I will be in Beijing the first of next week. I suspect that this may be one of the subjects that will come up.

What we are saying is that there should be a method whereby a member country, in good standing with and one of the founders of the Asian Development Bank, should be able to remain in. At the same time, a new country should be able to be admitted as a member without the expulsion of the founding member. Accordingly, we think that some type of solution could and should be worked out.

Our Executive Director has been working on that. The President of the Bank has been working on that. He has been talking to quite a few nations about what type of solution would be suitable. I would say that at this point, there is reason to believe that some type of accommodation will be reached.

Senator KASTEN. Are you able to assure the subcommittee that whatever arrangements are made that those arrangements will not be at the expense of Taiwan.

Secretary REGAN. Yes.

Senator KASTEN. I think that that is very, very important. As you know, Mr. Secretary, or you may know, we have a resolution in Congress, and that resolution now has well over 50 cosponsors, which says that whatever happens in the Asian Development Bank, if a change is made and whatever change takes place is at the expense of Taiwan, that the Congress would—I would bring that resolution to the

Congress at that point, and I think that it would put our contributions to the Asian Development Bank at jeopardy.

My understanding is that from your point of view, you understand that, and in fact we are on the same side on this issue, and if a change were made at the expense of Taiwan, you would not be recommending contributions to the Asian Development Bank. Is that a fair way of characterizing your position?

Secretary REGAN. Yes, Mr. Chairman.

What we are doing is to try to work quietly behind the scenes—these things can best be handled in that fashion—in order to effect some type of arrangement. We have alerted all of the members of the Asian Development Bank about how, not only the Congress, but the administration feels on this subject. So they are mindful of what is going on, and I think that both of the nations involved are mindful of what is going on. Therefore, we are working gingerly toward some type of accommodation.

SUCCESS OF ASIAN DEVELOPMENT BANK

Senator KASTEN. The concerns that the members of this subcommittee have had is with regard to the size of the People's Republic of China as opposed to a number of the other members of the Asian Development Bank. Some of us look at India in a number of different multinational institutions, the World Bank would be a good example, and the tremendous participation of one donor. Senator Inouye has been a strong proponent of the Asian Development Bank for a number of years, and I think that it has been one of our more successful multilateral financial institutions.

Are you concerned, or are others in the administration concerned that if the People's Republic of China were, through some kind of an arrangement, able to participate in part or under certain kinds of arrangements, that the borrowing would be such that it would squeeze out a number of the smaller Asian countries which right now are developing, and in fact many of them have become free enterprise models in the region.

Secretary REGAN. Mr. Chairman, we have made it quite clear to the People's Republic that if, as and when they join the Asian Development Bank, we would not be considering them coming in as a borrower, but indeed, if anything, as a donor. We can't see their coming in and undoing many of the long-range plans that the Asian Development Bank has to help some of the poorer nations of that area—nations, maybe not on a per capita basis, but certainly from an overall basis, a lot poorer than the People's Republic.

As far as India is concerned, we have made this known to India also that, while there may be some moneys there for India, certainly nothing of the scale and proportion that they have been getting in IDA would be available to them in the Asian Development Bank; no way.

ESTABLISHMENT OF FUND OUTSIDE IDA-VII

Senator KASTEN. Mr. Secretary, we talked briefly about the U.S. position on the negotiations at IDA–VII, and I just wanted to ask you a question.

We heard reports, and I can't remember whether they were in the press or wherever, that there may be some efforts made to establish a fund outside of IDA–VII so that those countries, which supposedly wanted to give IDA more money, could do so through some kind of special facility, a quasi-IDA.

I understand that in the end, if my reports are right, that the idea got no takers, essentially, and despite some of rhetoric, no one came through with any cash upfront and, therefore, there wasn't any new fund, or quasi-IDA, or new IDA.

Are these reports true, and was there an effort made to establish something in addition to or outside of IDA, and is it true that it was tried and people didn't come up with the money?

Secretary REGAN. There were several medium size countries who have been generous donors to IDA, and great supporters of IDA over the years, who thought that the $9 billion was much too low, and that $12 billion would be a much more appropriate figure for IDA. Accordingly, they suggested that among themselves they set up this side fund, as it were, barring any nondonor from receiving any contracts that might come about as a result of this second fund's payouts.

We expressed concern over that, but said that if these countries wished to give money, that was their money, and they could do as they pleased with it. It is my understanding that there is still talk about this, but there is no cash as yet that has been put out.

As a matter of fact, it is my understanding that IDA is having difficulty actually reaching the $9 billion in usable cash because many nations are asking that the donations in their own currency be as a result of a 6-month average of its relationship to the SDR or to the dollar. This, of course, would mean a lot less cash, because the dollar has strengthened or did strengthen so much in the final 6 months of 1983. We hope that IDA will be able to get fairly close to their $9 billion, but IDA is not there yet.

CURRENT SITUATION AT IMF

Senator KASTEN. Let me switch to the IMF. I am pleased that it looks as if we won't have to fight through the battle that we fought through in terms of the IMF quota increase that we went through over the last year or so.

I wonder if you could just give us a brief idea of what the current situation is at the IMF. The quota increase, has that been enough? Has the overall debt situation improved? Can you tell us if the large banks, who have such a significant interest in some of these countries are continuing to cooperate in the overall effort, or are they starting to pull back as, in fact, they were threatening to do along, I should say, with some of the medium size banks as well last year?

What is the situation there now? I hope you will also be able to tell us that you are not likely to be coming in with another quota increase over the next year or so.

Secretary REGAN. I will answer that last part first, as they say, "Not on my watch." [Laughter.]

Secretary REGAN. As far as the overall situation is concerned, I think the IMF, the Federal Reserve System, Treasury, and the international banks have worked very effectively in handling a very serious international problem.

We have gotten behind us a lot of the very crucial decisions we had to make as far as many of the larger debtor countries were concerned. We are not out of the woods by a darn sight yet. We have many perils that we are going to have to go through over the next 12 months. There are still many leading nations, large debtor nations that are having problems.

Most of those that have gone through IMF programs find that while they are burdensome, they are tough politically to take, and they are hard on the people of the countries, nevertheless the medicine is effective and is working. Mexico, I think, is the shining example of this.

The worldwide recovery that is now starting to take place helps a lot and is led, of course, by the very rapid recovery of the United States. To the surprise of most people it came so fast and it is so strong that it is pulling the rest of world right along with it out of the recession that the world economy has been in. This helps these developing countries, these debtor countries, so that they are able to handle their debt in a little better fashion. If interest rates were to come down, they really would be helped.

We still have problems, I think it is fair to say, because they have been in the press. Nations such as Argentina, Venezuela, and Nigeria still remain as large problems. We still have the Polish problem. Yugoslavia is now participating in an IMF program, and we are hopeful that that is going to work.

So, while the situation has improved, we still have these problems out there.

The banks have, by and large, been very cooperative. Of course, it has been for reasons of self-survival as much as anything else, but nevertheless they have done a lot of work in trying to accommodate many of these countries. Once the country does get into a situation where they have IMF approval, then the banks are able to help.

Right now, for example, they would like to help the Philippines, but they don't have an IMF program. So until the Philippines agrees to an IMF program, the banks are not going to move. I think that this is forcing political leaders to make some choices they wouldn't otherwise have made. It is so easy to go along without a stabilization program.

Frankly, Mr. Chairman, if we hadn't had an IMF in 1982, 1983, and 1984, we would have had to invent one. But it has been very handy to have it available in this time of international financial crisis. I think I can assure you that in terms of hard currencies, the IMF apparently has sufficient funds. However, if there were unexpectedly a worldwide recession or some unexpected jolt that would harm a lot of the members of the IMF, we might have to revisit the subject. However, under the current situation as we see it, Mr. Chairman, no.

What I am referring to would be a sudden third oil shock, that would have very bad repercussions on most of the debtor nations of the IMF. But apart from that, I don't see any need for an additional quota increase soon.

KISSINGER COMMISSION REPORT

Senator KASTEN. Mr. Secretary, the Kissinger Commission Report and recommendations on Central America included recommendations that roughly $16 billion be provided in economic assistance from donors other than the United States, including some of the multilateral development banks.

Has this matter been taken up with these institutions and, if so, what kind of a reaction are we getting so far from some of the multilateral development banks in terms of overall support and help for Central America?

Secretary REGAN. Not at my level. I have not personally taken it up with them. On a staff-to-staff basis, it has been informally discussed, and the obvious answer is: If that is going to happen, we are going to have to have more in the way of funds to lend. How are we going to do this unless the United States accepts the leadership.

Particularly when it comes to Central America, they would be looking for us not to put up 20 percent as in IDA, but they would be looking for 25 to 35 to 40 percent committed by the United States. Then these other nations would consider participating. I see as yet no consensus in the Congress for any increases in our contribution of that magnitude to these banks.

So I think that what we have to do, Mr. Chairman, is to work more toward enlightenment, more toward an understanding of these problems among the American people and among the people of industrialized countries more toward understanding the problems of Central America before we will be able to proceed very much further. Right now I don't see—how shall I put it—the desire and the American people don't see the need as yet. I think we have to make the case.

DIRECT U.S. AID TO CENTRAL AMERICA

Senator KASTEN. According to the recommendations, we are coming in with roughly $8 billion that is going directly from us to Central America.

Secretary REGAN. In bilateral aid, yes.

Senator KASTEN. So we are already making a significant contribution there. I am hopeful that possibly, even with the contributions that we have right now, we might be able to at least work toward it.

It is not a U.S. problem. It is a problem of the Americas. I am hopeful that especially those institutions, Inter-American Development Bank, and others that are in this hemisphere might look favorably upon this.

Secretary REGAN. They have to make the case to the other industrialized nations, to Japan, to Germany, to Great Britain, to France, and the others, for the need for this type of mammoth support. But I don't think at this point, at least in my conversations with finance ministers, that the case has been made to them as yet.

PROGRESS MADE BY IDB

Senator KASTEN. Mr. Secretary, in the past, the Congress and this subcommittee have been critical of the management of the Inter-American Development Bank. We have expressed a concern over repeated reports of politics, political logrolling, as well as a tendency to push projects which have, you might say, questionable development goals.

It is my understanding that the Treasury Department also has had some concerns about the Inter-American Development Bank, but maybe that situation has in part started to clear itself up. What can you tell us today about the Inter-American Development Bank and the kind of progress that they are making?

Secretary REGAN. We have discussed this at great length with the management of the Bank, not only through our executive director, but through representations at the under secretary level, and the assistant secretary level, to the management of the Bank, and through our executive director to the other executive directors.

We are very careful in the way we screen projects, and we examine why certain projects are being proposed. We are very careful in how we vote on projects, because we don't want to be accused of not having paid close attention to taxpayers' money and the way it is being distributed, even though it is someone else who is distributing it. So we are alert to that.

The situation is improving. It is not perfect, but I think that it is improving.

U.S. MEMBERSHIP IN AFRICAN DEVELOPMENT BANK

Senator KASTEN. Last year, we discussed briefly, and 2 weeks ago, I think in even more detail, the congressional concern expressed as we prepare to become a nonregional member of the African Development Bank.

The concern was whether or not that institution had the human resources necessary, the management ability, the accountability, the auditing, et cetera. There was some question as to how many nonregional staff would be allowed at the Bank, along with, obviously, some nonregional money.

What is the situation now regarding this concern and is AID still providing technical assistance to the African Development Bank?

Secretary REGAN. The number of non-African employees is still minimal in the Bank. We are in the process of discussing with the Bank certain job openings. We are continually raising this issue with the Bank in order to take advantage of the expertise of the various nonregional technical assistants in order to make certain that we can be as supportive as we can in the Bank.

It is slow progress. There is some progress, but it is not a satisfactory situation there.

SUBMITTED QUESTIONS

Senator KASTEN. Mr. Secretary, I have a number of questions, and I am sure that other Senators who are members of the subcommittee have questions, but in the interest of time—we promised to try to get you out at 11:45, and we will do so—we will submit additional questions to you for the record, and other members of the subcommittee will do so as well.

We enjoy the opportunity to work with you. Thank you very much for your testimony this morning. Good luck on your trip to China.

Secretary REGAN. Thank you, Mr. Chairman, I appreciate that. We will be responsive.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

INDIA'S VOTING POWER IN THE WORLD BANK

Senator Kasten: Secretary Regan, in reports which appeared in the New York Times and the Washington Post, on February 10th, reference was made to India blocking the IDA Seven negotiated plan. Those reports indicated that India was refusing to accept a lower ranking, despite what had been negotiated.

Is that still the case, or has this matter been resolved?

Secretary Regan: The problem raised by India related to the World Bank's proposal for a Selective Capital Increase (SCI) and not the IDA VII agreement.

The SCI and IDA VII were both scheduled for World Bank Board consideration on February 6. On February 3, the Board was advised that India objected to the fact that the share allocations under the proposed SCI, which included the proviso that all countries including India would waive their pre-emptive rights to subscribe to additional shares, would lower India's voting power from 3.09 percent to 2.90 percent, and India's ranking in voting power from seventh to ninth place.

Under the SCI, new share allocations are related to the recent IMF quota increase and not to members' current share holdings in the Bank; members thus had to waive pre-emptive rights which entitle them to retain their relative share position in the Bank.

One of India's major concerns was that the proposed voting power reduction would jeopardize India's ability to ensure an Indian Executive Director on the Board. We took the view that India had raised a complex issue -- which could involve the exercise of pre-emptive rights and affect the U.S. veto -- which required further careful study for resolution. Immediately following our request for a roughly six week delay in Board action on the SCI, Japan requested a delay in consideration of IDA VII.

An arrangement has now been negotiated -- based on a distribution in the future of previously unallocated Bank shares -- which accommodates India in a way acceptable to other members. Resolving the issue in this fashion separates the SCI Resolution, which remains unchanged, from the question of additional shares for India and others which Executive Directors will consider in the future.

Senator Kasten: Secretary Regan, I am pleased that your statement emphasizes this Administration's efforts to encourage economic reforms as a major element in Third World development. You mentioned that this policy is an outgrowth of your assessment which was published in 1982, and I wonder if you can give the Subcommittee an idea of the progress you are making in this area -- are you making headway on this issue?

Secretary Regan: The Working Group on Multilateral Assistance (WGMA), through its loan review process, has both directly and indirectly encouraged economic reforms in developing countries.

Specifically, our policy on sub-loan interest rates has resulted in stronger policies in the MDBs to achieve positive real subloan interest rates over time. This is important because of the role interest rates play in efficiently mobilizing and allocating resources.

Another example of economic reforms we have encouraged is our position on public utility tariffs i.e., the rates charged for water, electricity, telephones, etc. In our review process, we try to ensure that the utilities cover, at minimum, their operations and maintenance costs and generally require a certain annual rate of return on investment capital. As a result of our efforts to strengthen the policies, the loans we have reviewed in recent months show that the utilities are more often charging enough for their services or that the banks are now requiring that a plan be implemented to increase rates to the necessary level during the life of the project.

Similarly, our policies have contributed to the progress made in raising energy prices to realistic levels in borrowing countries such as Peru, Colombia, and Ecuador. In addition, we have noticed in World Bank loan documents the increased emphasis on private sector involvement.

IDB LOBBYING

Senator Kasten: Secretary Regan, does the Inter-American Development Bank have a policy which allows officials of that institution to lobby Congress against Administration proposals that affect it?

Secretary Regan: The IDB's policy appears to preclude lobbying Congress against Administration proposals. The IDB Articles stipulate that Bank officers and employees are not to interfere in the political affairs of any member, and the IDB Code of Ethics indicates that a staff member may not issue statements or opinions before the public authorities of any country without prior approval of the President.

INTER-AMERICAN INVESTMENT CORPORATION

Senator Kasten: Secretary Regan, would you tell us a little more about the Inter-American Investment Corporation, for which you are requesting $20 million?

As I am sure you know, some have suggested that this institution will simply duplicate the IFC.

Why isn't that criticism valid?

Secretary Regan: I should first note that the funding requirements for U.S. subscriptions for the IIC will be smaller than had been anticipated in January. The Congress will soon receive a budget amendment reducing the request for fiscal year 1985 from $20 million to $13 million. In subsequent fiscal years, the Administration will request $13 million for each of 1986 and 1987 and $12 million for 1988 in order to complete the four year, $51 million U.S. subscription.

The IIC will provide financial and technical support for small and medium sized firms in Latin America and the Caribbean.

The IIC will provide financial support in the form of loans or equity participations. Because of the focus on small and medium sized firms, we expect that the primary beneficiaries will be located in the poorer countries of the region.

The IIC will operate as a window of the IDB. While maintaining a separate staff, a separate and more streamlined decision-making process and a separate legal identity, the IIC will have its offices in IDB headquarters in Washington, will depend on the IDB for administrative support and will draw on the country knowledge of IDB staff members.

The advantages of a close relationship with the IDB include the increased familiarity with borrowing country private sectors that the IDB staff will acquire from cooperating on IIC projects -- thus, nurturing a private sector focus in the IDB's own lending program. In addition, there is a clear administrative saving associated with avoiding the creation of an entirely detached institution.

The advantages of legal separation of the IIC and IDB include a streamlined decision-making process designed to increase the likelihood that IIC projects will effectively develop the private sector, rather than becoming simply another source of foreign financing for borrowing governments.

All loan and equity proposals will be reviewed by an Executive Committee of the Board of Directors, comprised of two borrowing country Directors, the U.S. Director and a non-regional member country Director.

Approval of an investment requires a favorable vote by three of the four Executive Committee members. If three of four Directors oppose a project, it is terminated without possibility of appeal, although any member to the 13 member full Board of Directors can ask for a review and explanation by the IIC Management.

If the Executive Committee ties 2 to 2, the proposal will be sent back to Management for reformulation, if Management considers such action possible or desirable. If Management brings a reformulated proposal forward and a tie persists, the IDB President, as Chairman of the Board of Directors, may cast a tie breaking vote.

A second important advantage of a separate institution is the professional independence of the IIC staff. Staff members will be selected for their business experience in Latin America or the Caribbean and, importantly, will be expected to provide advisory services for firms benefitting from IIC investments. Maintaining a high quality but small staff will require effective leadership and administration.

The General Manager, the single most important individual in the IIC, will be responsible for the daily operations of the IIC, including employment and dismissal of staff members. He will also be responsible for selection, preparation and submission of investment proposals to the Executive Committee and the full Board of Directors. In order to ensure that the individual has wide support, the Articles of Agreement require that members comprising 80 percent of the total voting power concur in his selection. The United States, with 25.5 percent of the voting power, will have a decisive voice.

The IIC will have a very distinct purpose compared to the IFC. First, the IIC will help to redirect the IDB toward the private sector. Second, the IIC will be smaller and the decision-making process more streamlined than the IFC. Third, the IFC tendency to invest in government enterprises -- when MDB hard windows can do the same -- will be virtually absent. Fourth, the IIC will be an expression of U.S. commitment to assist Latin America and the Caribbean in a way that the IFC cannot.

MULTILATERAL AND BILATERAL ASSISTANCE

Senator Inouye: Mr. Secretary, when the Reagan Administration came into office, one of the underlying themes to its foreign assistance policies was the belief that the United States could achieve greater policy influence though bilateral programs than it could through the multilaterals.

Do you still believe this to be true?

Can you identify for the Committee a specific country where this effect has been noticeable?

Secretary Regan: From its beginning, the Reagan Administration has believed that, developing country policies themselves are the primary determinant of development success. Policy changes in the direction of greater reliance on market forces and a less heavy government hand can make an important contribution to the rate of economic growth and development. Development assistance -- whether bilateral or multilateral -- should, therefore, support developing country efforts to improve their policies.

The issue here is not whether one type of assistance or another achieves greater policy influence because U.S. bilateral and multilateral assistance policies and programs are mutually supportive. As a general rule, the United States seeks to maintain an appropriate balance based on an assessment of the comparative advantage of each -- stemming from their nature or specific institutional experience. Each is, better suited for achieving certain objectives and the effectiveness of each partly depends on the existence and effectiveness of the other.

Multilateral institutions may be particularly effective in providing assistance for large scale projects which require very large amounts of financing. Multilateral development banks also may have a greater ability to influence LDC economic policies, when the assistance is larger and viewed as less politically motivated than bilateral aid. Some multilateral aid organizations can play a useful role in responding to the needs of sensitive countries and in acting in politically delicate situations.

The bilateral program can be more effective in addressing particular kinds of development problems and constraints, such as improving agricultural institutions and technology and assisting to reduce population growth. These are areas in which the United States has a comparative advantage because of technical expertise and program experience. Bilateral assistance is also effective for supporting the development of countries that are of particular, special importance to the United States.

Finally, to give two concrete examples, successful transplantation of proven U.S. agricultural extension services may require the concommitant completion of a large irrigation project financed by the multilateral banks. And conversely, the benefits from the irrigation project would be much reduced in the absence of the bilateral extension services. In addition, bilateral and, multilateral donors are increasingly working together in a dialogue with LDC policy makers to promote LDC policies that will improve efficiency and create the conditions for broadly-based economic growth.

As a second example, the experience and policy analysis and leverage resulting from the U.S. bilateral assistance program for the agricultural sector in Guyana were the bases for a U.S. effort to strengthen that country's agricultural policies both through AID and through the Inter-American Development Bank. As a result, we have witnessed a notable shift in Guyanese agricultural policies and plans in the last ten months.

QUESTIONS SUBMITTED BY SENATOR INOUYE

ANALYSIS OF MDB LOANS

Senator Inouye: Mr. Secretary, from your statement, I learn that you are "convinced that a sound and consistent approach to loan analysis by the United States is having the desired effect: to strengthen the policy advice that the MDBs convey to their borrowers."

What are the principal elements of this approach to loan analysis? For example, is there a standard of measurement for private sector participation in MDB-financed projects?

With the great variation among nations in their economic conditions, natural resources availability, and political stability, how do you achieve a consistent approach to loan analysis? Do you find that this approach results in, so to speak, attempts to put square pegs into round holes?

What evidence do you have that this policy advice by the MDBs is taking hold? Can you cite a specific country example where policy advice has been successfully adopted?

Secretary Regan: The Administration has sought to make the U.S. Government's loan review process more systematic, consistent, and complete. This is part of our ongoing process to implement the recommendations of our 1982 Assessment and to meet the need in the multilateral development banks (MDBs) for higher project quality and better borrowing country sector and macro-economic policies.

We have systematized the role of our Embassies in the review of proposed MDB loans. Our Embassies are consulted by cable on most proposed projects. Naturally their replies are carefully considered, as they provide valuable expertise on special local factors and country conditions. The square peg is rounded a bit through this process. This is especially important for World Bank Structural Adjustment Loans and for sector and program loans.

The World Bank and the regional development banks carefully design their lending programs for the specific circumstances of each borrowing country. Frequent sector and macro-economic missions visit borrowing countries to ensure that the MDBs consider all relevant information in designing projects. Additionally, the United States carefully reviews all proposed projects to check that they are compatible with MDB sector plans and country macroeconomic policies.

All proposed MDB loans, technical assistance grants, and policy papers are carefully reviewed by the inter-agency staff level Working Group on Multilateral Aid (WGMA), which meets weekly and is chaired by Treasury. WGMA checks proposed MDB loans closely for their economic, financial, and developmental soundness, as well as for compatibility with existing legislation, Administration policy, and American economic interests. Final decisions on loan proposals are made by policy level Treasury officials as necessary. We have recently added the Interior Department to the WGMA in order to improve our review of natural resource projects.

The WGMA has sought to increase consistency in the loan review process by adopting specific policies in such key areas as public utility tariff levels, sub-loan interest rates, and cost overrun financing. We are now seeking the adoption of these policies in the various MDBs, as we believe this will further improve project design. The WGMA will soon consider adopting a policy on recurrent cost financing by the MDBs.

In short, while each project and each country are different and require separate treatment, there is a number of common issues that arise in many projects. With respect to these issues, the United States encourages policies and project designs that yield efficient resource allocation.

INTER-AMERICAN INVESTMENT CORPORATION

Senator Inouye: Mr Secretary, you note that for the past two years, "the Administration has been discussing the creation of the Inter-American Investment Corporation (IIC) with other members of the Inter-American Development Bank (IDB)."

We have heard the overture; when will the curtain rise?

Has the IIC proposal met with broad support in the Inter-American Development Bank?

How has it been received in the Congress? Do the authorizing Committees support the concept? Will you have authorization to proceed this year?

Secretary Regan: Negotiations of the IIC Articles of Agreement were completed on February 29, 1984. I provided the Senate and the House of Representatives proposed implementation legislation to authorize U.S. membership on March 8, 1984.

On February 29, 1984, I briefed the Senate Foreign Relations Committee on the IIC, and on March 1, I testified at a hearing of the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Finance and Urban Affairs to discuss the program. While it is fair to say that the main interest during those hearings was the other element of our MDB authorization proposals -- U.S. participation in the Seventh Replenishment of the International Development Association -- the majority of the comments on the IIC appeared to indicate that our proposals will be given favorable consideration.

In addition, the Treasury Department staff has conducted less formal efforts to acquaint Members with the advantages to borrowing countries and to the United States that would stem from active U.S. participation in the IIC.

I am hopeful that authorizing Committees will support the proposal and that legislation to authorize U.S. participation will be enacted to permit the United States to join on October 1, 1984.

Internationally, it is clear that other IDB members are planning on U.S. participation and are extending broad support to the program. Twenty-one borrowing countries in the region and nine industrialized countries from outside of the Western Hemisphere are planning to be founding Members. However, with 25.5 percent of the capital -- the lowest U.S. share in any IDB program — participation by the United States is essential for a successful launching.

MDB REPLENISHMENTS

Senator Inouye: Mr. Secretary, you have said the seven MDB replenishment agreements negotiated by the Administration "provide 11.7 percent more, in terms of subscriptions and contributions, than the previous agreements for these same programs."

How is that percentage increase measured? Is it in constant dollars?

When you say that U.S. contributions to the MDBs will "grow a shade less than the rate of inflation," what is the assumed rate of inflation?

Is this assumption shared by others, the Congressional Budget Office for example? If not how widely do the assumptions differ?

Secretary Regan: The 11.7 percent increase is in nominal dollar amounts and represents a comparison with the previous replenishments for these same programs.

The assumed rates of inflation (U.S. GDP deflator) are: 1984-4.5 percent, 1985-4.8 percent, 1986-4.5 percent, 1987-4.2

percent and 1988-3.9 percent. The Congressional Budget Office assumes the following rates of inflation: 1984-4.7 percent, 1985-5.1 percent, 1986-4.9 percent, 1987-4.7 percent, 1988-4.5 percent. Under this alternative set of inflation assumptions, the increase in replenishment sizes would also be less than inflation.

CONCESSIONAL LENDING PROGRAMS

Senator Inouye: Mr. Secretary, who has suggested that "the Administration is 'out to get' the concessional programs" and that it "does not care about the poorest countries"? Have other donors suggested that conclusion?

What actions or policies of the Administraton gave rise to this suggestion of the Administration's intent?

Secretary Regan: Statements of concern over the years may have been the result of the Administration's intentions to reduce contributions to concessional programs substantially in real terms. Most such statements originated in Washington.

Not surprisingly, other donor countries — while generally preferring higher funding levels for these programs -- were not as inclined to perceive dire consequences or sharp breaks in U.S. policy. Perhaps, their more modulated reaction can be explained by their clear perception that U.S. funding reductions were selective -- affecting only two of the four concessional programs -- and were accompanied by proposed program changes, such as more systematic maturation, to target concessional resources more effectively.

The quoted portions of my statement are not attributable to any specific person but were intended to depict the occasional comments that have been expresssed in recent years about Administration policies toward the concessional windows of the MDBs. See, for example, the Future of the Multilateral Development Banks, Hearings before the Subcommittee on International Development Institutions and Finance of the House Committee on Banking, Finance and Urban Affairs, July 15, 17 and 22, 1982, pp. 41, 46, 76, 85, 192, 298, 321, and 356 and the Washington Post of January 31, February 5, February 21, September 24, and September 27, 1981 and February 18, and March 7, 1982.

SUBCOMMITTEE RECESS

Senator KASTEN. The hearing is adjourned.

[Whereupon, at 11:23 a.m., Thursday, March 15, the subcommittee was recessed, to reconvene at 2:30 p.m., the same day.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MARCH 15, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 2:45 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

EXPORT–IMPORT BANK

STATEMENT OF WILLIAM H. DRAPER, III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon, we will hear testimony from Mr. William Draper, president and chairman of the Export-Import Bank, who will present testimony in support of the administration's request.

Bill, first of all, we want to thank you for being patient with us this afternoon. We are in the middle of a record vote right now. School prayer is on the floor. I am not sure what is going to happen in terms of votes, but I think that we will just struggle through. I also thank you for working with us in delaying the start of this hearing in part because of legislative work. We appreciate your patience.

As you know, your entire statement will be made part of the record. I would ask that you proceed now with a brief summary, and we can go to some questions.

ACTIVITIES OF BANK

Mr. DRAPER. Mr. Chairman, and members of the subcommittee:

It is a particular pleasure for me to appear before you today in the Export-Import Bank's 50th anniversary year to present the Bank's budget request for fiscal year 1985.

During the half-century of its operation, the Eximbank has supported $160 billion in U.S. export sales, helped sustain American jobs and contributed to the benefits that international trade brings to both buyers and sellers. Today, the Bank is meeting aggressively the challenge of continued risk-taking in difficult markets to keep trade flows going for U.S. exporters while our trading partners work out their financing problems.

SHIFT IN PROGRAM SUPPORT

There has been a significant shift in the mix of our program support in the last 3 years. The large projects and major capital equipment export sales requiring the Bank's long-term direct lending have slowed dramatically. At the same time, as commercial lenders became more and more concerned with the risks of international transactions, the need for Eximbank guarantee and insurance support became urgent and our guarantee programs expanded to meet this need.

CREDITS TO FOREIGN COUNTRIES

Eximbank is taking a leadership role in keeping the flow of credits moving to countries with temporary liquidity problems. We see Eximbank as a catalyst in putting together the international financing packages needed to work out of these problems.

The $1.3 billion guarantee and insurance facility approved for Brazil in September facilitated an $11 billion international safety net. We played a similar role in 1982 and 1983 in Mexico. We believe that Brazil and Mexico are now on the road to recovery. They have been forced to cut imports drastically. Now they must purchase more exports from the United States, such as spare parts and raw materials, in order to increase exports of their own products. Increased international trade is necessary for them to generate the foreign exchange needed to service their debt and continue their recovery.

Concurrent with the brighter outlook for many developing countries, some of America's leading exporters are forecasting substantially better business in the months ahead.

BUDGET REQUEST BREAKDOWN

When the 1985 budget request was drawn up, our best estimate at that time was that we would use our entire authorization of $10 billion for insurance and guarantees in fiscal year 1984. However, based on business in-house and in the pipeline at that time, we expected to use only $2.58 billion of our $3.868 billion lending authority ceiling. We want to lend it all, of course, in support of American exports. And if some of the projects our exporters are anticipating come early, we could easily exceed that $2.58 billion estimate.

At the end of fiscal year 1983, we had $10.4 billion outstanding in commitments, simply awaiting go-ahead decisions by the foreign buyer. Moreover, we have developed new programs and initiatives to try to reach many potential small and medium-size exporters and to help them get into the market. All of the factors form the basis for the Bank's budget request for 1985.

BUDGET REQUEST

Eximbank is requesting $3.83 billion for direct loan obligations in fiscal year 1985. We anticipate that demand for credit received by the Bank will increase substantially between now and the end of fiscal year 1985 as countries work out of their debt payment problems and come back into the marketplace. Eximbank's request should be sufficient to provide the necessary coverage for exporters in offering competitive financing on U.S. sales.

MEDIUM-TERM LOAN PROGRAM

In fiscal year 1983, Eximbank introduced a new medium-term loan program. The purpose of this facility is to provide fixed interest rate support for those medium-term export sales that are facing subsidized, officially supported export credit competition from abroad. The interest rate provided to the foreign buyer is the minimum allowed under the OECD Guidelines. This program operates within the limits of the Regular Loan Program and is budgeted at $500 million for fiscal year 1985.

SMALL BUSINESS

Of the three new programs introduced by Eximbank in 1983, two were tailored specifically for small business needs. The Small Business Credit Program, formerly called the Small Manufacturers Discount Loan Program, enables small firms to arrange commercial bank financing for their foreign customers with interest rates fixed at the lowest level allowed under the OECD Guidelines.

This program is similar to the medium-term credit program, but has a special incentive and help to small business, it is not necessary to show evidence of foreign competition as in the case of larger companies. Authorizations for this program are budgeted at $100 million for fiscal year 1985, the same as 1984.

Prior to the actual export sale, our Working Capital Guarantee Program helps small businesses meet their preexport financing needs, such as inventory buildup or export marketing programs.

In addition, our New-to-Export Insurance Policy provides expanded risk coverage at reduced premium rates to companies beginning to export. Just last week, we added a "hold-harmless" provision to this policy for banks that accept assignment of the proceeds of these policies from small businesses as collateral for loans.

In extending the Eximbank charter last year, Congress placed special emphasis on the needs of small exporters and provided for a set-aside of the Bank's annual total commitment authority for small business, starting with 6 percent this year, 8 percent in fiscal year 1985, and 10 percent in fiscal year 1986.

Based on the incentives provided by these specifically designed programs that we have put into effect this year, plus a major outreach which we have initiated to small businesses and bankers who finance them, we feel confident that we will not only reach these target figures, but we will surpass Congress' expectations in supporting small businesses' move into the export market. For example, since the beginning of this fiscal year, about 60 percent of the export credit insurance policies written by our agent, the Foreign Credit Insurance Association, or FCIA, are held by small businesses.

INSURANCE AND GUARANTEES

With regard to insurance and guarantees. In October of last year, we negotiated a new agreement with the insurance companies which had been our major partners in FCIA. The agreement provides for Eximbank to underwrite all of the political and commercial risks covered by FCIA policies. FCIA continues to act as our agent in selling and servicing policies to exporters and commercial banks.

As I mentioned previously, a critical role for Eximbank over the near-term is risk-taking in export sales to help keep essential trade flows going between the United States and countries experiencing debt payment problems. To service these needs, we are requesting $10 billion for guarantees and insurance again in fiscal year 1985.

FINANCIAL CONDITION

The Bank's projected income statements indicate that a decrease in income which started in fiscal year 1980 is expected to continue for several years. In fiscal year 1983, a net operating deficit of $247 million was incurred. The Bank is currently projecting an operating deficit of $295 million in fiscal year 1984, and a deficit of $318 million in fiscal year 1985.

These operating deficits are charged against Eximbank's accumulated reserves, and, as a result, we anticipate a decline in Eximbank's equity structure over the next few years. The Bank's reserves are currently projected to be $1.179 billion as of September 20, 1985.

In conclusion, we believe that we now have a broad range of fully competitive export financing programs available to help all sizes of U.S. businesses wishing to export. Our loan programs carry the lowest interest rates and maximum terms permitted under the OECD arrangement.

Our guarantee and insurance programs are available to help U.S. businesses export by keeping the lines of commercial credit flowing in support of U.S. exports to the majority of the world's markets despite serious economic problems abroad.

We are proud of the part that Eximbank is now playing in the process of the rebuilding of the international economic order which is so essential to the economy of this country as well as other world trading nations.

I am prepared to answer any questions that you may have.

[The prepared statement of Mr. Draper follows:]

PREPARED STATEMENT OF WILLIAM H. DRAPER, III
PRESIDENT AND CHAIRMAN

EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee:

It is a particular pleasure for me to appear before you today in the Export-Import Bank's 50th anniversary year to present the Bank's budget request for fiscal year 1985.

During a half-century of operation, Eximbank has supported $160 billion in U.S. export sales, helped sustain American jobs and contributed to the benefits that international trade brings to both buyers and sellers. While the purpose of the Bank has remained the same since its beginning--to help to finance U.S. exports--the Bank's emphasis has changed many times as needs have changed. Today, the Bank is meeting aggressively the challenge of continued risk-taking in difficult markets to keep trade flows going for U.S. exporters while our trading partners work out of their financing problems.

Eximbank was created in 1934 to "prime the pump" with exports during the Depression. It helped to keep the trade lanes open during the World War II, financing strategic projects such as the Burma Road. It helped U.S. firms to participate in the post-War reconstruction of Europe and Asia before the Marshall Plan, and to build the Inter-American Highway linking our continental neighbors.

Since the 1950's, the Bank's emphasis has been on assisting U.S. companies to tap the growing developing country markets. In the 1960's, U.S. export opportunities included huge projects and large airline fleet purchases of new jets. The amount of money required and the extended repayment terms needed exceeded commercial bank capabilities. With Eximbank assistance, they were able to meet the needs. In the 1970's, international borrowing became expansive and commercial interest rates soared. Intense competition developed among governments to subsidize export financing.

The decade of the 1980's opened with sudden and unexpected changes in the world economy. Just since 1979, the price of oil tripled, the real exchange value of the dollar rose 55 percent, and real interest rates reached unprecedented heights. Leading industrial nations were thrown into prolonged recession. Commercial banks lost confidence in international lending as increasing numbers of foreign borrowers experienced difficulties in repaying their debts.

Resource-rich developing countries were especially hard hit by the economic changes. They had a high percentage of floating rate loans to be repaid at unanticipated high rates. At the same time, these countries had a loss of their export sales to recession-hit industrial nations. Prices for some of the developing countries' key export commodities hit a 30-year low.

During the past two years, the whole international financial community was shaken by debt repayment crises in major high-growth nations, and international financing flows declined. Medium-term international bank credit commitments fell 32 percent, from $145.9 billion in 1981 to $98.9 billion in 1982, further compounding the developing countries' problems.

The financial crisis dealt a body blow to exports. World exports fell 1.8 percent from 1980 to 1981 and fell a further 7.1 percent from 1981 to 1982. U.S. exports, which had grown every year since the late 1950's, dropped 9.2 percent in 1982, and dropped a further 5.5 percent in 1983. The 1984 trade deficit may reach $100 billion.

The international financial difficulties have had a four-fold effect on Eximbank.

First, as U.S. exports dropped, so did demand for Eximbank's financing services. In FY 1981, the Bank authorized $12.9 billion in loans, guarantee and insurance support for U.S. exports. In FY 1982 and 1983, our authorizations were down 25.7 percent from 1981's level to approximately $9.3 billion.

Second, there has been a shift in the mix of our program support in the past three years. The large projects and major capital equipment export sales requiring the Bank's long-term direct lending have slowed dramatically. At the same time, as commercial lenders became more and more concerned with the risks of international transactions, the need for Eximbank guarantee and insurance support became urgent and our guarantee programs expanded to meet this need.

In 1981, our guarantees and insurance were 58 percent of total authorizations. In 1982 they increased to 62 percent, and by 1983 guarantees and insurance had risen to 91 percent of all authorizations. We do not expect them to stay that high, but this is indicative of our willingness to take risk in a down-side market.

Third, the significant changes in the international economy affected the Bank's portfolio. We have had a spate of claims and reschedulings. We have had to assign two special task forces to deal with the record number of claims received under our guarantee and insurance programs.

Our record of recovering claims paid, however, is excellent. We have reached an agreement with the Government of Mexico concerning their efforts to help us recover on claims in the private sector which followed the Mexican crisis. Last August we recovered $420 million in past-due payments from Iran, reducing our total delinquencies from $800 million to $430 million in principal and $193 million in interest today. A significant number of claims are continuing to come in from Venezuelan and Mexican transactions. For some borrowers encountering temporary difficulties, we have rescheduled principal and interest installments on our loans to aid collectibility and to enable the obligor to service the debt.

Fourth, country-risk analysis has assumed new importance in today's world. Our past efforts were directed largely toward assessing the creditworthiness of the individual purchaser and the ability of an individual project to generate sufficient income to repay debt undertaken for its development. The Eximbank economists today are analyzing in more depth than ever the economic viability of countries in which we do business.

Eximbank, however, takes a long-range view in evaluating country creditworthiness. We consider that most developing countries have long-term creditworthiness, as long as they are taking measures to correct their temporary debt service problems.

Eximbank is taking a leadership role in keeping the flow of credits moving to countries with temporary liquidity problems. We see Eximbank as a catalyst in putting together the international financing packages needed to work out of these problems. The $1.5 billion guarantee and insurance facility approved for Brazil in September facilitated an $11 billion international safety net. We played a similar role in 1982 that led to a $10 billion package for Mexico. We also set up a new $500 million facility to help meet Mexico's needs in 1983 and 1984. We believe that Brazil and Mexico are now on the road to recovery. They have been forced to cut imports drastically, but they now must purchase more exports from the United States, such as spare parts and raw materials, in order to increase exports of their own products which, in turn, will generate the foreign exchange needed to service their debt and help them recover.

FY 1985 Budget Request

Despite the downturn in U.S. exports in 1983, it was a year of activity and accomplishment for Eximbank. Our total authorizations in FY 1983 increased slightly from the previous year to $9.4 billion. At the end of the year we had outstanding preliminary commitments in support of $10.4 billion in potential exports awaiting go-ahead decisions by foreign buyers. Moreover, we have developed new programs and initiatives to try to reach many potential small and medium-size exporters and to help them get into the export market. All of the factors form the basis for the Bank's budget request for FY 1985, which consists of the following:

-- $3.83 billion for direct loan obligations, which includes $3.73 billion for regular loans and $100 million for the small business credit program.

-- $10.0 billion for guarantees and insurance; and

-- $18.93 million for administrative expenses.

The $3.73 billion being requested for regular loans will be used to support exports of items requiring repayment terms of five years or more. It will also be used to fund the Medium-Term Credit Program to support export sales on one to five year terms that are facing subsidized, officially-supported export credit competition from abroad. In addition, the Bank is budgeting $100 million for the Small Business Credit Program for FY 1985, as we did in FY 1984.

Regular Loan Activity

Eximbank is requesting $3.83 billion for direct loan obligations in FY 1985. We anticipate that demand for credit received by the Bank will increase substantially between now and the end of FY 1985 as countries work out of their debt payment problems and come back into the market place. Eximbank's request for $3.83 billion in direct loans for FY 1985 should be sufficient to provide the necessary coverage for exporters in offering competitive financing on U.S. sales.

Negotiations conducted with our O.E.C.D. counterparts during 1983 resulted in another important agreement in October 1983, taking us closer to our goal of eliminating export financing subsidies in the international market place. Eximbank played a leading role in getting an agreement to link lending rates by export credit agencies to movements in the market rates. Although there is still a small subsidy involved, the agreement provides for semiannual adjustments that will bring the agency rates into line with market rates by mid-1986 at the latest.

We are continuing to negotiate with our O.E.C.D. partners with the ultimate goal of squeezing out all subsidy in export financing. In April I plan to attend another negotiating session when we resume our efforts to get our export competitors to eliminate the use of "mixed credits" as a means of boosting exports.

In line with the intent of Congress expressed in the recent Eximbank legislation, we recently made preliminary commitments to U.S. exporters for highly concessionary loans to meet predatory mixed credit financing by France. These actions supporting potential sales in Indonesia and Cyprus were unanimously backed by the National Advisory Council. We hope that the message of our willingness to fight predatory financing will have a positive effect on the upcoming negotiations.

Medium-Term Credit Program

In FY 1983, Eximbank introduced a new medium-term loan program. The purpose of this facility is to provide fixed interest rate support for those medium-term export sales that are facing subsidized, officially-supported export credit competition from abroad. The interest rate provided to the foreign buyer is the minimum allowed under the O.E.C.D. Guidelines.

Eximbank will make a fixed interest rate loan commitment to a U.S. bank that is financing the export sale and will loan its funds to the U.S. bank. The guidelines, fee rates, and, in turn, internal administration of this program are similar to the Small Business Credit Program except that evidence of foreign competition must exist and an advance commitment fee is required. Eximbank will finance up to 85% of the U.S. contract value. The buyer must make a 15% cash payment.

This program operates within the limits of the Regular Loan Program and is budgeted at $500 million for FY 1985.

Small Business

Of the three new programs introduced by Eximbank in 1983, two were tailored specifically for small business needs. The Small Business Credit Program, formerly called the Small Manufacturers Discount Loan Program, enables small firms to arrange commercial bank financing for their foreign customers with interest rates fixed at the lowest level allowed under the O.E.C.D. Guidelines. This program is similar to the Medium-term credit program, but as a special incentive and help to small businesses, it is not necessary to show evidence of foreign competition. Authorizations for this program are budgeted at $100 million for FY 1985, the same as 1984.

Prior to the actual export sale, our Working Capital Guarantee Program helps small businesses meet their pre-export financing needs, such as inventory build-up or export marketing programs. In addition, our New-to-Export Insurance Policy provides expanded risk coverage at reduced premium rates to companies beginning to export, and just last week we added a "hold harmless" provision to this policy for banks that accept assignment of the proceeds of these policies from small businesses as collateral for loans.

In extending the Eximbank charter last year, Congress placed special emphasis on the needs of small exporters and provided for a set-aside of the Bank's annual total commitment authority for small business, starting with 6% this year, 8% in FY 1985 and 10% in FY 1986. Based on the incentives provided by these specially designed programs, plus a major outreach which we have initiated to small businesses and bankers who finance them, we feel confident that we will not only reach these target figures but will surpass Congress's expectations in supporting small businesses' move into the export market. We are now better able to identify our support that goes to small exporters. For example, since the beginning of this fiscal year about 60 percent of the export credit insurance policies written by our agent, FCIA, are held by small businesses.

Guarantee and Insurance Programs

As I mentioned previously, a critical role for Eximbank over the near-term is risk-taking in export sales to help keep essential trade flows going between the United States and countries experiencing debt payment problems. These problems in many countries made commercial banks increasingly reluctant to finance new export business. Use of Eximbank's regular guarantees, and particularly its short-term insurance program, has been essential in making this type of financing available for U.S. sales.

In October of last year, we negotiated a new agreement with the insurance companies which had been our partners in providing export credit insurance through the Foreign Credit Insurance Association (FCIA). The agreement provides for Eximbank to underwrite all of the political and commercial risks covered by FCIA policies. FCIA continues to act as our agent in selling and servicing policies to exporters and commercial banks. We believe that this change has provided a better and closer link between Eximbank and FCIA in providing this essential service to the exporting community.

In addition to increases in our regular guarantee and insurance programs, we are looking toward greater use of our Working Capital Guarantee Program for pre-export assistance to smaller businesses as this program becomes better known in both the export and banking community.

To service these needs, we are requesting $10 billion for guarantees and insurance in fiscal 1985.

Financial Condition

The Bank's projected income statements indicate that a decrease in income which started in FY 1980 is expected to continue for several years. In FY 1983 a net operating deficit of $247 million was incurred. The Bank is currently projecting an operating deficit of $295 million in FY 1984, and a deficit of $318 million in FY 1985. These operating deficits are charged against Exim's accumulated reserve, and, as a result, we anticipate a decline in Exim's equity structure over the next few years. The Bank's reserves are currently projected to be $1,179 million as of September 30, 1985.

For the Future

We are undertaking a major new effort to market our programs more effectively. A special team has been formed to conduct seminars around the nation aimed specifically at acquainting the local small business communities with the export financing programs available from Eximbank. We are looking at all of our programs to determine whether modifications are needed to make them more accessible or application procedures might need simplifying, for example. We are developing a long-term communications program to try to reach companies unfamiliar with our services and to help them to use them. We are concentrating on building a better distribution network for our informational materials and the actual programs. In this connection, we are already starting to work closely with State agencies, banks, Chambers of Commerce, trade associations, and other effective organizations who are on the front lines with exporters.

We believe that we now have a broad range of fully competitive export financing programs available to help all sizes of U.S. businesses wishing to export. Our loan programs carry the lowest interest rates and maximum terms permitted under the O.E.C.D. Arrangement. Our guarantee and insurance programs are available to help U.S. businesses export by keeping the lines of commercial credit flowing in support of U.S. exports to a majority of the world's markets despite serious economic problems abroad.

We are proud of the part that Eximbank is now playing in the process of the rebuilding of the international economic order which is so essential to the economy of this country as well as other world trading nations. Eximbank has altered its emphasis many times over the past 50 years in providing assistance to U.S. exporters, and we believe that we are in a good position today and have taken the steps necessary to be able to meet today's special challenges.

EGYPTIAN NUCLEAR PROJECT

Senator KASTEN. Bill, thank you.

We have received reports that the Eximbank has turned down financing of exports to Egypt, or may be in the process of turning down some export financing to Egypt based on a determination that the Bank made that Egypt would not be able to pay back such a loan. Is that true?

Mr. DRAPER. Mr. Chairman, we are open in Egypt. We have approved loans as well as guarantees and insurance for exports going to Egypt. Perhaps you are referring to the nuclear power plant that Westinghouse proposed to sell to Egypt. We did turn that down, and we turned it down because our engineers felt the project was going to cost far more than had been estimated by the Egyptians and Westinghouse, and might get up to approaching in excess of $3 billion.

If that loan had been made, we would have had to close for other exports that might have gone forward to Egypt because the Egyptian economy is fragile as it is, and taking on a debt of that size would have precluded our covering anything else. Also, the repayment would have occurred at a time when their oil, which is one of their main sources of income, would be running out. The debt service ratio would have gone from in the neighborhood of 20-plus percent up to 40 percent.

As a result we felt that this would have been detrimental to the economy of Egypt. While we are willing to stay open in Egypt, with the economic problems that they are having, we felt that it would be a bad thing to finance that project on top of their normal economic needs.

One other element in it is that AID, which as you know supplies a tremendous amount of American help to Egypt, was opposed to the project also on the grounds that Egypt would not increase the price of their electricity to come up to meet the cost of their electricity. They really are charging only about 20 percent of the cost of their electricity.

This means that they are subsidizing electricity heavily, and in a country such as that—as you know these financing approvals are based on a case-by-case method—if the project is being subsidized heavily, if the electricity, for example, is being subsidized heavily by the Egyptian Government, or any government, it becomes a problem for us to finance, in an enthusiastic way or at all, depending on the strength of the economy there.

We have discussed it thoroughly. In fact, because Senator Heinz had expressed some concern about that at the time we were making the decision, and prior to our making the decision, I brought our vice president for Africa and the Middle East, and two other staff members— an economist and an engineer—to lay out the problems for him that they saw with this case. It was a unanimous staff recommendation that we not do this project. After doing that, I didn't hear back from Senator Heinz. I think he understood the reasoning for it.

Senator KASTEN. Other agencies of the U.S. Government are providing loans to Egypt.

Mr. DRAPER. AID has a very large program.

CRITERIA FOR LOAN DECISIONS

Senator KASTEN. When you decide that we are not going to provide a loan to Egypt, do you make a decision that Egypt is not able to pay, or won't be able to carry that debt?

It seems to me that an awful lot of the countries that are lent money by Eximbank, countries like Mexico, Brazil, and others, are in difficult circumstances, as well. Obviously, Egypt, along with Morocco, Turkey, and several of the countries in the Mediterranean have a difficult balance of payments situation, and all of them are in what can be termed as close and difficult positions in terms of their economy.

It seems to me that it is not your job to decide that Egypt cannot pay. That seems to be a decision that we ought to make as the U.S. Government, and then we ought to switch loans to grants, or cut them back down, which is something, incidentally, that we are in the process of doing in other countries.

How did you make that decision? Are you saying that they might not have been able to pay, and we didn't like the project, and we don't like their cheap energy policy?

Mr. DRAPER. I think that all of those are accurate. We didn't like the project. We did feel that if the project went ahead, we would have difficulty complying with your requirement that we have reasonable assurance of repayment. We would have had to shut up in Egypt, so that a lot of other exporters would not be able to participate. We have had some $9 million in direct loans and $27 million in guarantees approved in this fiscal year alone in Egypt.

Senator KASTEN. You know that the subcommittee and the Eximbank don't necessarily agree on these kinds of informal country-by-country, region-by-region allocations that you make, but I won't get into that. There is nothing in the law that says that we should have certain country-by-country or region-by-region allocations.

I am trying to figure out how you were able to determine that Egypt is unable to pay a loan, and meanwhile we have other agencies of the Government extending credit to them, AID and a number of others.

Mr. DRAPER. You are not arguing that AID has a requirement from you, the Congress, to have a reasonable assurance of repayment in their loans, and we do have that.

Senator **Kasten**. The determination that you made was that they would not have a reasonable chance of repaying.

Mr. **Draper**. Right.

EGYPTIAN ENERGY POLICY

Senator **Kasten**. On the other question, as I am sure you know, we are concerned about a number of countries in this world that have a cheap energy policy, or a cheap food policy, or both. Egypt certainly is not the only country that falls into this category.

Mr. **Draper**. No; it isn't.

Senator **Kasten**. As you may be aware, there has been an ongoing debate between AID and the Egyptians on cheap food and cheap energy.

Mr. **Draper**. Right.

Senator **Kasten**. A number of us have felt that that debate was possibly counterproductive in that, yes, we do want to do what we can to get a better food policy, and we want to do what we can to get a better energy pricing policy in a number of these different countries. But our relationship with the Egyptians is also important.

Mr. **Draper**. Sure.

Senator **Kasten**. As they come to realize they must make reforms, I am not sure that it makes a whole lot of sense to keep beating them up publicly. We should instead encourage them instead of making it more difficult.

Mr. **Draper**. We are not beating them up publicly.

Senator **Kasten**. Maybe I am right now.

How much of your position was based on the fact that AID did not like the project, and it was going to further a cheap energy program, as opposed to the Egyptians perhaps not being able to pay the loan back?

Mr. **Draper**. AID is one of the agencies on the National Advisory Council, and as a result we take into consideration their advice. The main thrust of our decision was that the project, had it gone forward, or had our loan gone forward, we felt wouldn't have reasonable assurance of repayment, and that is a requirement that comes from the U.S. Congress. So we don't want to break the law. Our economists all are in agreement that there is no reasonable assurance of repayment if this goes forward.

Senator **Kasten**. What you are saying is, 80 percent reasonable assurance of repayment, and 20 percent "we don't like the project," or is 70–30, or what?

Mr. **Draper**. I would say that if we thought that there was reasonable assurance of repayment, we would have gone ahead with the project. If Japan wanted to buy a nuclear power plant, and they wanted to subsidize 100 percent of the electricity of that power plant, we would have approved it. The answer to your question, I think, is that it all comes to reasonable assurance of repayment.

SMALL BUSINESS SUPPORT

Senator KASTEN. I just left a Small Business Committee meeting with a Small Business Council group. I was pleased that in your prepared remarks, and also in your summary, you put a special emphasis on programs for small businesses.

As you know, Congress has a special interest in that the Bank set aside resources for small business. I have received reports that the Bank may try to fulfill this requirement by assigning small business resources to subcontractors of large contractors. I am not sure that I understand this, but I guess that the idea would be to try to assign or allocate some of the small business requirements to a subcontractor, let's say, supplying parts for a Boeing airplane. Is that the way you interpret the small business requirement in terms of working as part of the big business sale, or are you looking at the small business requirement independent of the larger contract?

Mr. DRAPER. We are looking at the small business requirement independent of the other. We have about 18 percent of the amount that has been authorized this year in the small business activity. Eighteen percent of the total authorization is small business, but that is not counting the small business that we can't find because they are subcontractors.

Wherever we can identify that there is a subcontractor participating in "*x* dollars" of export, we, of course, would score it up. But we are well over the requirement of the Congress to have 6 percent of the program set aside for small business this year.

Senator KASTEN. You suggested in your remarks that it was going to be going up.

Mr. DRAPER. It will go up. If the trend stays the same, and we continue at 18 percent of our authorizations being for small business, that would take us well beyond the requirement in 1986 which, as you know, does ratchet up to 10 percent in that year.

OUTREACH PROGRAM FOR SMALL BUSINESSES

Senator KASTEN. When I left this meeting, they handed me a piece of paper that I guess is a resolution that they intend to vote on or at least discuss, regarding Eximbank's encouragement of small business.

They said, first of all, that the Eximbank should place more emphasis on the State or local banks that are crucial to the success of the Eximbank's small business set-aside.

One gentleman mentioned to me that the big banks, the top ten or 15 banks in the country, and the major financial institutions are not necessarily the ones that are serving small business.

Mr. DRAPER. Right.

Senator KASTEN. You mentioned in your summary, and also in your statement, that you are working with these banks, and I wonder if we could explore that for a minute.

Mr. DRAPER. Sure.

Senator KASTEN. The State and the regional banks, in fact, are the main suppliers for the small business credit, and don't right now know how to work through the Eximbank process.

Mr. DRAPER. We have a program that we have just initiated this year to reach out to these small businesses, the smaller regional banks, and the State agencies concerned with exports.

We are trying a pilot program in the Middle West—in fact, I think your State is participating in it—where we will try to use all of these banks, the State's export-import operations, even perhaps CPA's and others, where they might write a blanket policy that FCIA would approve, although we would still check the credit centrally.

The idea would be that all of these organizations would help us market to the small businesses who are so hard to reach. For us to reach all of the small businesses that are in the country that have potential for export and get them successfully into our programs might take a tremendous and disproportionate amount of funding and advertising, and so on.

So we are trying to act as a supplier of information to a group of distributors, let's call them. The States that are showing interest in this are most interested in small businesses. They are not interested in funding the risk element; we would do that. We would take over the risk element, if they could just get the applications in to us.

As I pointed out in my testimony, we approve most of the applications that come into the Bank, and the real problem we have is reaching small businesses and getting enough applications in from many of these small businesses that might be able to use this service.

RISK COVERAGE FOR EXPORT SALES

Senator KASTEN. On that point, they say in another part of this resolution:

> In order to emphasize the importance of these "on-the-scene" banks, Eximbank should allow them to have their own discretionary lending authority, up to a certain amount, and the Eximbank should reinforce this authority with a 90-percent Exim commercial risk coverage to supplement existing State risk coverage programs.

Have you ever considered that or discussed that concept?

Mr. DRAPER. Right. We have a Working Capital Loan Guarantee Program where the banks will be able to help by identifying a problem. On the other hand, if the banks can do it, we shouldn't be trying to compete with them. We are not trying to replace the commercial banks; we are trying to cooperate with them and somehow, where they will not do it, we want to help.

This Working Capital Guarantee Program that we have is primarily for small businesses. If they can't get the backing of the commercial banks, we could guarantee the loan to them and take as security their inventory or receivables, just as any bank would do. But that working capital would have to be used in export-related activity for us to participate. If it is, we would like to participate.

We have also coordinated with the SBA, and they take a certain proportion of the risk. Of a working capital loan, up to $200,000, they take all of the risk, but then we take half of the risk on any working capital loan guarantee between $200,000 and $1 million. Over a million, we take 100 percent of the risk.

We have worked out this program, and they, with their many offices around the country, also can help us to distribute this program. We are a central office with 340 employees, and we are not able to reach all of these small businesses, but with their help, the State's help, and with the regional banks' help in cooperation in this program, we think we can really bring about a much broader use of this potential.

SMALL BUSINESS SEMINARS

Another thing that we have done is to organize a group of seminars around the country. We have some 28 of them, I think, scheduled so far this year. There we bring in the SBA representatives, the local Members of Congress, the FCIA representative who is out in that district, and we coordinate all of them to try to explain our small business initiatives. That has been quite successful. We have done 10 or 12 already. I think we have 35 actually planned nationwide.

ROLE OF BANKS IN FINANCING SMALL BUSINESS EXPORTS

Senator KASTEN. The question that these people had is that the emphasis ought to be more on the banks, and less on the actual small businesses. I think in answer to the last two questions, you have said that you agree with that, that the people who are actually the facilitaters, the deliverers, are not necessarily the small entrepreneur, but it is his banker who needs to know how the system operates.

Mr. DRAPER. That is right, and we want to educate that banker. He takes 10 percent of the risk in this working capital program, so he is going to be involved in it. We think that he will help us because it can become a profitable program for him and he can service some of those businesses in other markets. There might be a good client of his who is a small business that wants to reach out on a particularly big order overseas, and we could help him absorb some of that risk.

Senator KASTEN. One of the other things that they suggested would be some kind of a report, I don't know how formal or informal it ought to be. They suggested that at the end of a given year, the Eximbank Advisory Council should review all the local participating banks, evaluate the quality of their loans, the performance, the size of the companies to which they made these loans, and the extent to which banks loan Eximbank funds over a 12-month period.

Is there any way that you have part of that data now? Do you have any idea of how many banks you have participating and what kind of local participation there is?

Mr. DRAPER. Yes.

Senator KASTEN. If we asked you to do that, would this simply be a restatement of procedures you are already engaged in, or would this be the beginning of a complicated reporting system for you?

Mr. DRAPER. We have a pretty good handle, of course, on what we are doing. We have authorized in this fiscal year already some $31 million of direct loans to small businesses, and $177 million of medium-term credit to small businesses. We have financial guarantees of $105 million to small businesses and bank guarantees of $224 million, and short-term insurance of $900 million. I am sorry, I misspoke. The total is $1.5 billion, and $277 million is to small businesses.

The commercial banks' participation in that could be given to you, if you want that. We, of course, expect that the great majority of the world's exports are financed by the commercial banks, not by the Eximbank, and that is the way that it should be.

We wouldn't want to change that, but where commercial banks have become very skittish in this past year-and-a-half, since Mexico announced its problems, we have tried to fill in and be more aggressive, and give sometimes 100-percent guarantees in order to support exports that are going forward. You can ask for that information, and we can give you what we can get together. I think we have a lot of it, but some of it we wouldn't have.

Sometimes we don't know fully the private participation. Usually we know the private participation in a specific loan or in a specific guarantee, but how much business that particular company would do with its commercial bank is hard to pindown.

SMALL BUSINESS ADVISORY COUNCIL RESOLUTION

Senator KASTEN. I am going to make this resolution a part of the record at an appropriate place in today's hearing. As I said, this was just a worksheet of some ideas that they were talking about. It seems to me that they are not too far away from a lot of things that you are doing right now, or at least that you are working toward doing. I think that that is good.

[The information follows:]

RESOLUTION

WHEREAS, a congressional study determined that one of the largest obstacles to small business exports was a lack of adequate financing, and;

WHEREAS, a source of governmental export financing, the Eximbank, already exists, and;

WHEREAS, hearings held by the Senate Small Business Committee clearly demonstrated that the Eximbank was not serving as an adequate source of capital for small businesses wanting to export, and;

WHEREAS, Congress then enacted legislation requiring that a specific portion of Eximbank funds be set aside for small businesses, and;

WHEREAS, it appears in the small business community that the current practices of the Eximbank discourage small businesses from seeking access to this new set-aside;

THEREFORE, be it resolved that the Small Business Advisory Council makes the following recommendations to the Eximbank to encourage the bank to increase the availability of financing that is so crucial to small businesses wanting to export:

—The Eximbank should place more emphasis on the State or local banks that are crucial to the success of the Eximbank small business set-aside.

—In order to emphasize the importance of these "on-the-scene" banks, the Eximbank should allow them to have their own discretionary lending authority, up to a certain amount, and the Eximbank should reinforce this authority with

90 percent Exim commercial risk coverage to supplement existing State risk coverage programs.

—Eximbank should consider the viability of providing the above services through the existing Small Business Administration network which already has a strong interest in small businesses as a whole.

—Finally, at the end of a given year, the Eximbank Advisory Council should review all the local participating banks, evaluate the quality of their loans, their performance, the size of the companies to which they made these loans, and the extent to which the banks loaned Eximbank funds over a 12-month period.

CREDIT APPROVAL TO EXPORTERS

Mr. Draper. I just want to make one point clear, and that is that we would have trouble delegating our authority across the country to approve credit in cases where we don't know the exporter; we wouldn't want to give 100 percent coverage on that, or even maybe 90 percent. But our support is behind trying to off-load as much of the collection of data and getting the application prepared, and getting everything in so that we can really take care of these cases very fast as we get working with some banks.

We do now give banks insurance authority so that they can approve up to a certain amount of insurance—we very often don't know what exports go forward under that insurance policy until after shipment—and we have had pretty good results in getting those done. I would have the one caveat that we cannot allocate all of our authority around the country and sit back and let them do it all, because the problem would be a lack of control.

EGYPT

Senator Kasten. Let me go back to Egypt for a second. The legislation that developed as a result of the National Bipartisan Commission on Central America included a section on trade credit insurance which deals with the Eximbank. It essentially authorizes the Economic Support Fund moneys to be made available for payments by the Agency for International Development to discharge liabilities under certain guarantees and insurance issued by the Eximbank. Such guarantees and insurance shall cover the risk of loss or nonpayment under certain short-term trade credits used to finance goods and services for use by the private sector in Central American countries.

Going back to the Egypt question now, given the political importance of Egypt, would you favor a similar approach to Egypt, where we would just simply change the law to say that such guarantees and insurance shall cover the risk of loss or nonpayment under certain short-term trade credits used to finance goods and services for use by the private sector in Egypt?

That law is going forward now, I assume with your support, for the Central American countries.

Mr. Draper. I would have to study that. I am not sure whether I would really think that it would be appropriate to use the same language and the same type authorization for Egypt. In looking at the Central American case, we are continuing to do as much as we can where we see a reasonable assurance of repayment.

The various Central American countries have different credit ratings, of course, with us, and in some cases we are closed, as in Nicaragua. But we have done business in all of the other countries down there and we are still open in a very cautious way in most of them. We will continue to do that, trying to be as forthcoming as possible, and still have some assurance of repayment.

Senator KASTEN. You are aware that the legislation suggests that that might not always be the case.

Mr. DRAPER. Yes.

Senator KASTEN. In another section of the legislation, it states:

> Which do not, in the judgment of the Board of Directors of the Eximbank of the United States offer reasonable assurance that payment is required under section 2(b)(1)(B) of the Eximbank.

Mr. DRAPER. Yes.

Senator KASTEN. What we are suggesting is that we will guarantee it, and we will want to give the loan even if they do not offer reasonable assurance of repayment?

Mr. DRAPER. No; our interpretation of that is that AID would take responsibility with their ESF funds for that portion for which we don't find reasonable assurance of repayment. We would be perfectly happy to have them take responsibility for similar loans that they might believe important to make in Egypt. But I don't see that we would really conflict.

In fact, going back to Egypt, in one case that I can recall, AID was scheduled to supply two turbine generators and we were going to finance two turbine generators for the Egyptians on a given project. We did this a couple of years ago.

Senator KASTEN. Those are Allis Chalmers projects.

Mr. DRAPER. That is right.

Senator KASTEN. You are talking about the Aswan Dam, and our repair of the Aswan Dam, is that correct?

Mr. DRAPER. The fact of the matter is, I think, they took the AID money and also used our financing. We, of course, are not going to stand in the way of AID taking any credit risks.

MIXED CREDITS

Senator KASTEN. I think Egypt is right now just as important to us as any country in the world.

Last year, when we talked about mixed credits in the hearings, you indicated the emphasis of the Bank was to try to eliminate the use of mixed credits by all of our OECD partners.

Mr. DRAPER. Right.

Senator KASTEN. I am sure that if that were in fact to happen, we wouldn't be talking about that issue. In fact, this hasn't happened. Since they have not agreed to eliminate that practice, can you tell us whether or not you have worked with AID or others in order to provide mixed credits which will match that of our competitors?

In other words, I understand that your preference is to not have them, but that isn't working. Now where are we in terms of developing a program that would be competitive? Are you going forward to try to develop programs that will match our competitors?

Maybe I ought to add this other question, too, and then you can respond on the whole subject. You have a new mandate in the charter revisions now which were passed last year by the authorizing committee on mixed credits. How are you going to achieve that mandate?

Mr. DRAPER. We do have a program. The mandate was that I, as the Chairman of the Bank, and the Administrator of AID should get a program going to combat mixed credits. We, at the Eximbank, do not see much hope in the AID portion of this as of now, except in a very few countries, about six or perhaps eight countries where they really have these ESF funds that are available for mixed credits, and many of these are ones where generally we don't do business.

The basic objective of our program with AID is to exert sufficient competitive pressure on those who initiate mixed credits to convince them of the wisdom of negotiating a reduction or elimination of the practice. We also in our program plan to target our presence in areas that are most likely to influence these negotiations. We want to structure it in a way so as to reduce the adverse impact on our financial condition as much as possible.

Senator KASTEN. Are you delivering a program of mixed credits, or are you not?

Mr. DRAPER. That is what I am describing to you, what it is that we have. Those are our basic objectives, and the method by which we are going about it. Then we would structure the program, as I said, in such a way to avoid as much as possible the adverse effect.

Then there are some areas where we would not be prepared to offer mixed credits, where the credit is, let's say, over 30 percent, typically—where it is 30 percent AID money or concessionary financing.

Senator KASTEN. Is that parallel to what other countries are doing. Are they using a 30-percent threshold?

NEGOTIATIONS ON MIXED CREDITS

Mr. DRAPER. We are trying to get it there through the negotiations. Right now it is at 20 percent. Then between 20 and 25 percent, they must notify us 10 days prior to the bid date. We are trying to raise the threshold of paying, so that it gets closer and closer to a real AID project.

Also, we are trying to identify who are the main perpetrators of this practice. We suspect France, as we often do, of this kind of thing. We have, therefore, hit on two cases: one in Cyprus and one in Indonesia where France just came in with obvious predatory financing.

Actually, the one in Indonesia was over 30 percent, but it looked like a good case to go right in and attack. So we are taking these on a case-by-case method, without committing ourselves to too many rules and regulations at this point, just to try and get the attention of those with whom we will be negotiating.

In fact, I will be going to Paris for these negotiations in April, and we hope for some progress there on this subject. Now that we have settled the interest rate question, and the rates fluctuate according to commercial rates, this has become the issue that we want to put on the table.

As a negotiating tactic, we increased arbitrarily and unilaterally our interest rates in order to get other countries to move up. They moved up in two steps, as we did, and finally in early January 1983 we reduced our rates to be flat on the minimum OECD rates to match the competition. Since that time, to our knowledge, we haven't lost any cases due to financing.

We do a followup check on why we lost cases, and since the beginning of calendar 1983, we have not lost any cases due to financing terms. So we feel that we are competitive now and are aggressive, and we will be competitive and aggressive on the mixed credit situation. But we don't want to lead the pack, we don't want to drive everybody into doing this more and more. We want to block them on a selected basis.

GUIDELINES FOR MATCHING MIXED CREDITS

Senator KASTEN. In the congressional mandate, in terms of the charter revisions dealing with mixed credits, there was no 20 or 25 percent threshold. The 20- to 25-percent threshold is something that you are developing as a policy guideline. Is that right?

Mr. DRAPER. That is something that has been negotiated with the OECD, the 20 to 25 percent. Anything below 20 percent is illegal according to the OECD arrangement. Anything between 20 and 25 percent, they must notify us 10 days ahead so that we can match if we want to.

Senator KASTEN. We are matching in those cases. What about 25 to 30 percent?

Mr. DRAPER. We can match. We are not doing it just as a matter of course. There are some mixed credits that are just impossible to match. Japan has a billion or two untied loan to China at a very low interest rate, or perhaps zero interest rate, with the condition that the billion is to be used for getting the coal out of the ground and Japan has a first call on 25 percent, or some percentage, of the coal coming out of the mines at market rates.

Their objective is to get that project done because they need coal. We don't need coal in this country. So it would be foolish to match that untied loan because we don't need coal.

On the other hand, when Caterpillar comes up against Komatsu to try to make the sale for that coal digging equipment, they are at a great disadvantage because Japan has perhaps not disbursed to China on that commitment, and when they do, they will say, "How about buying Japanese equipment, because it will take a lot longer to get the disbursement made if you buy American equipment." That is the kind of thing that we are talking about.

Senator KASTEN. But that is a far out example.

Mr. DRAPER. No; it isn't far out, because really Japan has a lot of them. They have a similar program in Indonesia and in Malaysia for some of the supply of gas, and so on. Resources availability is one major reason to use this type of financing, and then they tie the equipment sales back into it. They called it untied, but it really ends up being tied.

That is a difficult group of credits to match. But when the French come in and just try to steal the business with a little bit of aid money, that is where we want to nail them, and we plan to do it.

LOAN APPLICATION FEE

Senator KASTEN. You said, after you ratcheted these interest rates around, we were basically competitive. I agree that we have made a lot of progress, and I congratulate you for the work that you have done there. But we still are out of line in terms of the front-end loan fee that we are charging as compared with what the other countries are doing.

How can you really say that we are competitive when we still are charging a front-end loan fee which makes us not competitive?

Mr. DRAPER. Let me explain that. We do not require any insurance on our direct credit. We just give direct credit, and we don't have any insurance on it. In the case of ECGD in Britain, and COFAS in France, and the Export Development Corp. in Canada, they all charge an insurance fee on the front end. In Canada's case, it was as high as 7 percent but it has come down to an average of 4 percent, I think. In the case of France and England, I think that it averages about 3 percent in both cases but can be as high as 5 percent.

We actually are low on that front-end fee. We just call it an application fee. They call theirs an insurance fee. But we both have fees on the front end. Ours can be paid in a 3-year period, and sometimes they can stretch theirs further. The point is that there is almost no difference between us, and if there is any difference, it is in our favor. So that is actually a wrong statement, Mr. Chairman.

Senator KASTEN. My statement is right that our fees are higher. You are saying that they get covered by insurance, and they call it a different thing.

Mr. DRAPER. I am saying that our fees are not higher.

Senator KASTEN. Your fees are not higher than our competitors?

Mr. DRAPER. No; that is correct.

Senator KASTEN. Some people who work with you would agree with my side on that one, and not with yours.

Mr. DRAPER. I think that that is before they look into the insurance side of it, because that insurance is a necessary part of their doing business, and it is not a necessary part of our doing business. They can't give a credit without insurance in Britain, France, and so on. They work partially with the private sector, and the way it works, it just happens that our fees are actually lower.

Senator KASTEN. The reason for the fee is to theoretically cover your cost of processing, is that correct, or is it simply because you are trying to get revenue? What is the reason exactly?

Mr. DRAPER. The Bank is not making money; it won't make money for a long time. We are losing money on every direct credit that we do, and, yes, we do get a little bit back from this fee. There is no theory behind it, except that we don't hurt ourselves by having a comparable fee to the Europeans.

Senator KASTEN. Obviously, there are still a few rough edges, but I think we have made an awful lot of progress. I want to thank you for your work and your testimony before the committee.

We will continue to work on trying to match the other guys in terms of the mixed credits and the fees. I intend to continue to work with you aggressively. I know that we are both trying to get to the same place, and I appreciate very much your work and your testimony before the subcommittee today.

Mr. DRAPER. I would like to say that you, Senator Kasten, have done a lot for the American exporter. Your committee is a very competent one, and it has been very helpful to us.

We are very pleased to come up and ask you for a budget that we feel is properly structured, and we believe that it is going to help the American exporter. Together, I am sure, we will keep refining the program, and we would like to work with you.

Senator KASTEN. We might even give you more than you asked for, but we will see.

Mr. DRAPER. Thank you very much.

EXIMBANK COMPETITIVE INSURANCE PROGRAM

[CLERK'S NOTE: On request of Senator Rudman, the following material which was received subsequent to the hearing, will be printed in the record at this point.]

United States Senate
WASHINGTON, D.C. 20510

June 12, 1984

Senator Robert Kasten
Senate Appropriations Subcommittee
on Foreign Operations
S-125 Capital

Dear Mr. Chairman:

In association with the Foreign Operations Subcommittee hearing on the Eximbank on March 15, 1984, please include the attached comments on the Eximbank/competitive insurance program in the hearing record.

Thank you for your cooperation in this matter.

Sincerely,

Warren B. Rudman

Warren B. Rudman

FAIR COMPETITION FOR U.S. INSURERS IN EXIMBANK TRANSACTIONS

Background

In its report on S-869, the "Export-Import Bank Amendments of 1983," the Senate Banking Committee expressed concern that:

> ...existing Eximbank guidelines for the procurement of insurance in connection with export transactions assisted by Bank loans or loan guarantees have no mechanism to deal with client countries invoking discriminatory laws or business practices to compel the placement of such insurance with local insurance companies.

Though many of these transactions receive substantial U.S. financial assistance, U.S. insurers are often denied an effective opportunity to compete for the related insurance business. Lost business opportunities for U.S. insurers as a result of these discriminatory foreign practices have been conservatively estimated to exceed $200 million annually.

Examples of foreign practices which have resulted in discrimination against U.S. insurers include: 1) government-owned insurance monopolies; 2) laws or regulations requiring that all insurance companies be locally-owned or controlled, or that all insurance business be placed with locally-owned companies; and 3) administrative or market practices which favor local insurance carriers and deny U.S. carriers an opportunity to compete effectively.

Efforts to eliminate or reduce these unfair barriers have been largely unsuccessful. In an effort to strengthen the Bank's hand to promote broader competitive opportunities for U.S. insurers in connection with Bank-assisted projects, new language was introduced into the Bank's charter with the signing into law of PL 98-181.

New Language

The signing of Public Law 98-181 passed into law legislation that amends the Charter of the Export-Import Bank. The language pertaining specifically to the insurance issue directs the Bank to:

1) work to ensure that U.S. companies are afforded an equal and non-discriminatory opportunity to bid for the insurance business generated by Eximbank assisted transactions;

2) review its current policies and programs in this regard and work with other federal agencies to promote equal and non-discriminatory opportunities to bid for insurance in all aspects of international trade activities; and

3) report to the House and Senate Banking Committees by May 15, 1984, regarding existing obstacles to equal and non-discriminatory bidding for insurance, efforts taken by the Bank to address these problems and any recommendations for further action by the Congress or the Administration.

The new language does not affect the competitiveness of Bank financing.

1) It does not require that insurance be placed with U.S. carriers, but merely that such carriers be given a fair opportunity to compete for such business.

2) Most of the Bank's major competitors in the export financing sector have adopted similar -- or in many cases more stringent -- policies concerning the placement of insurance.

3) The Bank's competitiveness is related to funding availability, interest rates and other terms of the loan agreement -- not insurance procurement.

4) The law allows the Bank full flexibility in determining how best to achieve the goal of equal and non-discriminatory access.

Summary

The amended Charter of Eximbank does not guarantee preferential treatment for U.S. insurers. Rather, it establishes the principle that recipients of Eximbank assistance may not arbitrarily deny such companies an opportunity to compete for the insurance business arising out of such transactions. The new law merely adopts the basic principle of fair and non-discriminatory access to foreign markets incorporated in the GATT and other international trade agreements.

SUBMITTED QUESTIONS

Senator Kasten. There are some other questions that we have, which I will submit to you for the record.

Mr. Draper. Sure, that will be fine.

[The following questions were submitted to the Bank for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

Senator Kasten: What sort of projections does the Bank make on worldwide recovery? How do these projections fit in with your projections on utilization of your resources?

Mr. Draper: Exim makes no projections of its own on worldwide economic trends. Rather, the Bank relies on forecasts prepared by several well-known private econometric firms. These projections, which include forecasts of U.S. capital goods exports, are used by Exim in preparing its annual budget submission to OMB. To cross-check these macroeconomic procedures, Exim calculates its budget estimates based on information which U.S. exporters, the Bank's loan officers, or the Commerce Department may have about specific large foreign projects likely to require Exim's support, particularly for aircraft and nuclear power project exports.

At the time Exim prepared its FY 85 budget (summer of 1983), the macroeconomic forecasts were showing relatively modest growth in U.S. capital goods exports through 1984, with stronger growth thereafter. Hence, Exim's budget estimates reflected little demand for Bank support for major projects in FY 84, with a modest increase in FY 85. By early 1984, market forecasts for 1984 capital goods exports had been lowered; hence, Exim revised expected FY 84 resource utilization downward during the presentation of the FY 85 budget.

Senator Kasten: How much of the Direct Loan Authority available to you in the current fiscal year have you used to date?

Mr. Draper: As of April 10, 1984, Eximbank had authorized a total of $651.5 in direct loan commitments for fiscal year 1984. This consisted of $421.0 for regular loans, $208.7 for medium-term credits and $21.8 in small business credits.

Senator Kasten: How do you plan to administer the recission requirement which was in the charter renewal enacted last year?

Mr. Draper: The Bank will assess the possible demand on its authority and transmit such assessment to the President. The President will determine, by March 31 of each fiscal year, if the authority available to the Bank is in excess of the amount needed for that year. A report on this determination will be transmitted by the President to the Congress by April 15 of each fiscal year.

Senator Kasten: You have had an operating deficit in fiscal year 1983 and fiscal year 1984, and you are projecting you will have one in fiscal year 1985.

Are the reasons for these deficits entirely due to debt rescheduling or inability of borrowers to pay, or are there also other reasons for the operating deficits?

Mr. Draper: The reason for Eximbank's operating deficits are not debt reschedulings or the inability of borrowers to pay their debts. Although debt reschedulings and borrower's repayment problems result in fewer funds being paid timely to Eximbank than would have otherwise been the case, Eximbank's net income increases slightly because the interest rate on the loans at the time of rescheduling is set at the higher of the underlying loan rate or current Treasury interest rate.

A substantial number of claims have taken place and are projected for the future. This reduces our net income by a relatively minor amount, however, as guarantees and insurance made to governments, or guaranteed by governments, are almost always rescheduled.

The primary reason for the operating deficits which began in FY 1982, is the negative spread between the interest rates at which the Bank lends its funds versus the interest rates we pay to borrow these funds. Prior to July, 1979, the negative spread had been less than 1%. Since then, however, the negative spread has grown considerably. The negative spread peaked at 3.41% in June, 1982, and has declined since that time to 3.11% currently.

Senator Kasten: You mentioned the operating deficits that Eximbank is running. Can you give us any idea of the operating deficits experienced by our competitors?

Mr. Draper: During both 1981 and 1982, Italy and Japan experienced operating deficits. Italy had a deficit of $31 million in 1981 and a $96 million deficit in 1982; Japan experienced a $24 million deficit in 1981 and a $79 million deficit in 1982.

Moreover, Canada, France, and the United Kingdom all moved from a surplus during 1981 to deficits in 1982. France's operating surplus in 1981 totaled $106 million; by 1982, France showed an operating deficit of $335 million. During 1981, the United Kingdom reported a surplus of $102 million; and by 1982, its operating deficit reached $220 million. Canada experienced a much more modest swing with a 1981 surplus of $15 million going to a 1982 deficit of $3 million.

Germany was the only competitor that showed a small operating surplus in both years, with a 1981 surplus of $0.2 million and a 1982 surplus of $19.4 million. However, recent newspaper articles report that Germany ran an operating deficit of $268 million in 1983 and expects another deficit in 1983.

Senator Kasten: In your statement you indicate that the Bank endeavors to take a long range view in evaluating country creditworthiness, and that you consider most developing countries as, in fact, having long term creditworthiness "as long as they are taking measures to correct their temporary debt service problems."

How do you evaluate creditworthiness -- do you send people out to the governments? Do you have a separate staff that does this work, or do you use the information provided by other U.S. government agencies?

Mr. Draper: The Export-Import Bank has a staff of economists who evaluate country creditworthiness on a continuing basis and who provide the Board with reports on specific countries when the Board considers proposed specific transactions. The economists use information from a number of sources, including U.S. Government agencies, international agencies such as the World Bank and the International Monetary Fund, as well as host Governments and exporting and banking firms and commercial economic forecasting services. The economists travel periodically to gain first-hand information in foreign markets, as do other staff members.

To determine whether a country appears creditworthy our staff analyzes economic and financial data concerning internal and external country conditions, including but not limited to economic growth, fiscal and monetary matters, balance of payments, external debt, and international reserves. If a country is having external debt service problems we are especially concerned with the steps taken or contemplated that will enable it to regain its financial footing, and whether or not such actions are under the guidance of the International Monetary Fund.

Our staff evaluates the present country situation as well as trends in the economic and financial indicators. Just as country problems usually evolve over time, so too correction of problems cannot occur in a short period. Therefore, the Bank tries to assess country creditworthiness from the long term point of view, recognizing that a country may have periodic deterioration or improvement in its situation.

Senator Kasten: What is your borrowing and lending spread at the present time?

Mr. Draper: At the present time, Eximbank's weighted average borrowing rate is 11.39% and its weighted average lending rate is 8.28%.

SUBCOMMITTEE RECESS

Senator KASTEN. The hearing is adjourned.

[Whereupon, 3:25 p.m., Thursday, March 15, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MARCH 20, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:15 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

PEACE CORPS

STATEMENT OF LORET MILLER RUPPE, DIRECTOR OF THE PEACE CORPS

ACCOMPANIED BY THOMAS WILSON, DIRECTOR OF FINANCIAL MANAGEMENT

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This morning, we will continue our fiscal year 1985 hearings with testimony from Loret Miller Ruppe, Director of the Peace Corps.

Mrs. Ruppe, it is a pleasure to have you here today. As you know, the subcommittee has been very supportive of the Peace Corps in the past, and I am hopeful that this year we will again be able to strike a balance between budgetary constraints and the need for funding for the Peace Corps, which I believe the Congress feels is a very worthwhile program.

As you know, your complete statement will be inserted in the record, but the subcommittee would appreciate a brief summary in terms of some of the high points, and then we will have questions. I am happy to have you here, and I look forward to your testimony.

RESULTS OF INSPECTION TOUR

Mrs. RUPPE. Thank you very much, Mr. Chairman.

It is always a pleasure to appear before you, especially today in support of the administration's request for appropriations which will enable the Peace Corps to continue its efforts on behalf of world peace and friendship for fiscal year 1985.

I have just returned from a five-nation program inspection tour, traveling to Sri Lanka where we have reinstituted our programs. I swore in 11 volunteers on nationwide television and visited with President Jayewardene, who praised this new effort of the Peace Corps for assisting in establishing English as the language link uniting the peoples of Sri Lanka.

I went to Papua, New Guinea, where we have been since 1980. We now have 50 volunteers working there.

I went to the Solomon Islands, where we have been since 1971.

I visited with prime ministers, with host country officials, and with the villagers of these countries and found a tremendous base of support. They pointed out the uniqueness of this program, of having Americans willing to learn the language and live at the village level. The very outreach of development which everyone is finding is the key to really creating the stability that we need in developing countries to ensure their development.

This past November, I had the opportunity to visit the Sahel countries of Niger, Upper Volta, Mali, Sierra Leone, and Liberia. Several of the presidents of those countries mentioned their close connection with Peace Corps. The President of Upper Volta said that he wished all 7 million of his Upper Voltans were like Peace Corps volunteers in the enthusiasm and dedication to solving problems of development.

This past year has been an encouraging one also, Senator, in receiving the support of this subcommittee, and we also found it in major commissions that were appointed by the President and by Secretary Shultz. The Peace Corps was noted in each one of them as being an incredibly positive presence.

CARLUCCI COMMISSION REPORT

In the Carlucci Commission report, it is quoted:

> The Peace Corps contributes to the U.S. development and cooperation effort by promoting small-scale, local, economic development, and self-sustaining productive capacities. Few U.S. programs of any type enjoy this favorable a reputation, both at home and abroad as the Peace Corps program.

A special report done for President Reagan, which was presented to him this past year, stated:

> The Peace Corps enjoys widespread public and political support. It is an example of American spirit of voluntarism, our citizens' interest and involvement in the development of other countries and our national commitment to work constructively for peace worldwide.

The Peace Corps makes, we believe, a significant long-term contribution to our foreign policy by promoting development, particularly in the least developed countries, by contributing to U.S. public diplomacy in LDC's, and also by educating Americans about conditions in the Third World.

The National Bipartisan Commission on Central America, chaired by former Secretary of State Henry Kissinger, has also stressed the positive effects of enhanced Peace Corps presence in Central America.

YOUTH POLICY INSTITUTE

So we find that we have this great support, which is now documented in the reports of three different commissions. However, I would like to mention that the Youth Policy Institute recently said, and I quote:

> The puzzle of decline and neglect, despite the support, seems to be a consequence of perception. Many in the foreign policy field and in Congress view the Corps as mainly a goodwill effort, rather than a form of national service equally important to the country as military service.

I am very pleased to see that for our budget for fiscal year 1985, the administration does recognize the importance of the Peace Corps and has given us the amount of $115 million, plus $9 million in Kissinger Commission moneys to expand our program there.

NEW COUNTRY ENTRIES

Over 5,000 volunteers serve in 59 countries throughout the world. We hope to have some new country entries.

This past year, we entered Haiti, where they have now asked us for many more volunteers.

We are in Burundi, where we will increase that program.

I just swore in the first 11 volunteers in Sri Lanka.

We have reestablished our program in Grenada beginning with two volunteers in education. We expect to increase these numbers by June with volunteers working in the area of education, health, and agriculture.

NEW PILOT PROJECTS

New pilot projects are:

A self-help housing project in Costa Rica;

The planning of two new interagency projects, of which Peace Corps is an integral part;

The teacher-text-technology project in which we work with AID, the Department of State, and USIA. This is part of our forward plan to coordinate as much as possible with other agencies in a time of tight resources; and

Also a joint project grant agreement with Peace Corps Africa and AID in combating communicable child diseases.

INCREASE IN PRIVATE SECTOR SUPPORT

Our private sector support is increasing. This is the 20th anniversary of our Peace Corps Partnership Program, and I am very proud to say that we have increased it significantly.

Last year, we received $93,000 for the whole year, and this year I was just told, as I returned, that we are over $100,000. So we are very pleased with that. That is a definite commitment to outreach in the private sector for in-kind donations, for training help, dental equipment, seeds, books, and we have gotten a great deal of cooperation from the private sector in this program.

Since 1964, the Peace Corps partnership program has raised over $3 million in support of 2,000 projects. In Nepal, I visited actual sites of school buildings and water resource development, and there is tremendous support for this.

RECRUITMENT

Our recruitment has been streamlined. We are actively trying to increase our recruitment of Hispanics, minorities, and certainly older Americans. We are having preretirement seminars, and many companies are now putting us in their preretirement counseling.

For fiscal year 1984, about 2,700 volunteers will be placed, and by fiscal year 1985, we predict 2,570. That is a slight downswing, but in times of tight restrictions, we understand that.

MANAGEMENT IMPROVEMENTS

We have improved management.

We have updated our Peace Corps Manual.

The internal control system is going well.

We have an administrative intern program to try to increase the skills administratively around the world.

Our audit process has been shortened, so that we are now doing audits on a regular basis overseas, and we are constantly seeking to expand and upgrade our overseas staff.

Other highlights of this budget request for 1985 include, as I said:

Increasing our Grenada program;

Maintaining support for the administration's Caribbean Basin Initiative; and

Expanding the small enterprise development sector. Senator, I think you would be very interested in knowing that in every country that I visited, everyone from prime ministers to agricultural people see a real need for better accounting skills, business organization skills, and they see our volunteers as being the link with the small farmer, women in development, handicraft projects, and income generation.

So this is definitely a sector that we are zeroing in on, and we are doing everything we can to give our volunteers training, special training in how to do that linkage, to produce income generation at the microeconomic level, for the very smallest businesses, farmers, and women in development.

Our fiscal year 1985 budget request affirms the importance of the Peace Corps as a vital component of the overall U.S. approach to international development. We are very appreciative of this committee's support.

We do have two other legislative proposals that are noted in our request. One is to ensure that our foreign nationals abroad will be able to serve longer—that the 5-year rule will not apply to them. We need that for both credibility and continuity. The second one is that our information collection exchange has the capacity to require minimum payment, instead of gratis publications, so that we can send out more of them.

Over 100,000 Peace Corps volunteers have served abroad, providing direct assistance to literally millions of people on an individual basis.

Beyond the economic benefits to the United States that result from stabilizing and developing the economies of poor nations, I have seen the incredible reservoir of international goodwill and experience that is brought back to our shores to help our country be more peaceful, and to have the type of partnerships and relationships that allow for world peace and friendship.

Thank you very much for this opportunity to testify before you today.

[The prepared statement of Mrs. Ruppe follows:]

PEACE CORPS

PREPARED STATEMENT OF LORET MILLER RUPPE
DIRECTOR

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

INTRODUCTION

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY IN SUPPORT OF THE ADMINISTRATION'S REQUEST FOR APPROPRIATIONS WHICH WILL ENABLE THE PEACE CORPS TO CONTINUE ITS EFFORTS ON BEHALF OF WORLD PEACE AND FRIENDSHIP FOR FISCAL YEAR 1985.

I HAVE JUST RETURNED FROM A FIVE-NATION PROGRAM INSPECTION TOUR, WHERE I SAW VERY VIVIDLY PEACE CORPS VOLUNTEERS PROMOTING WORLD PEACE AND UNDERSTANDING ON A PERSON-TO-PERSON LEVEL. I MET A VOLUNTEER COUPLE FROM IOWA WORKING WITH VILLAGERS IN THE INTERIOR OF PAPUA NEW GUINEA TO INCREASE THE VEGETABLE YIELD FOR SALE TO A GOVERNMENT-SPONSORED MINING PROJECT. THE PROJECT PROVIDES FOOD TO THE MINERS AND INCOME TO THE VILLAGERS, HELPING TO IMPROVE THEIR VERY PRIMITIVE LIFESTYLES. IN SRI LANKA I SWORE-IN THE FIRST GROUP OF ENGLISH LANGUAGE TRAINERS. THESE FINE VOLUNTEERS -- AMERICANS OF ALL BACKGROUNDS -- EMBODY THE PEACE CORPS COMMITMENT TO HELPING OTHERS HELP THEMSELVES. PRESIDENT JAYEWARDENE PRAISED THE VOLUNTEERS FOR ASSISTING IN ESTABLISHING ENGLISH AS THE LINK-LANGUAGE UNITING THE PEOPLES WITHIN THIS BEAUTIFUL COUNTRY.

LAST NOVEMBER I VISITED THE DROUGHT-STRICKEN SAHEL AREA OF WEST AFRICA. I SAW THE RAVAGED COUNTRIES OF DRY WELLS AND NO RAINFALL -- I ALSO OBSERVED THE HOPE FOR A BETTER WAY OF LIFE THERE. AS PRESIDENT SANKARA SAID DURING MY MEETING WITH HIM: "I ONLY WISH THAT THE SEVEN MILLION UPPER VOLTANS WOULD WORK

WITH THE SAME ENERGY AND COMMITMENT THAT PEACE CORPS VOLUNTEERS WORK." INCIDENTALLY, HE IS A FORMER PEACE CORPS LANGUAGE TEACHER.

I COULD GO ON, BUT YOU, TOO, HAVE SEEN THE RESULTS OF THIS MOST COST-EFFECTIVE FOREIGN ASSISTANCE PROGRAM, SO LET ME REVIEW FOR YOU SOME OF THE HIGHLIGHTS OF THE PAST YEAR AND OUTLINE OUR REQUEST FOR FISCAL YEAR 1985.

THIS PAST YEAR HAS BEEN A VERY ENCOURAGING ONE FOR ME AS DIRECTOR OF THE PEACE CORPS, BECAUSE I HAVE WITNESSED A REEMERGENCE OF PUBLIC AWARENESS OF THE VALUED PLACE PEACE CORPS HOLDS IN THE FOREIGN AFFAIRS COMMUNITY AND THE WORLD AT LARGE. FOR EXAMPLE, THE COMMISSION ON SECURITY AND ECONOMIC ASSISTANCE, A PRESIDENTIAL COMMISSION CHAIRED BY AMBASSADOR FRANK CARLUCCI, ENDORSED THE PEACE CORPS, NOT ONLY FOR ITS IMMEDIATE POSITIVE EFFECTS ON THE FAMILIES AND VILLAGES IN LESSER-DEVELOPED NATIONS, BUT ALSO FOR THE ENDURING HUMAN RESOURCE DEVELOPMENT AND INSTITUTION BUILDING REPRESENTED BY 23 YEARS OF CONTINUOUS, "PEOPLE-TO-PEOPLE" PROGRAMMING. THE CARLUCCI COMMISSION SINGLED OUT THE OVER 100,000 RETURNED PEACE CORPS VOLUNTEERS AS AN EFFECTIVE CONSTITUENCY, KNOWLEDGEABLE AND CONCERNED ABOUT FOREIGN AFFAIRS. IT CALLED UPON RETURNED PEACE CORPS VOLUNTEERS TO JOIN A PUBLIC CITIZENS' NETWORK TO EDUCATE AMERICANS OF THE NEED FOR INTERNATIONAL DEVELOPMENT ASSISTANCE.

THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA, CHAIRED BY FORMER SECRETARY OF STATE HENRY KISSINGER, HAS STRESSED THE POSITIVE EFFECTS THAT WILL RESULT FROM AN ENHANCED PEACE CORPS PRESENCE IN CENTRAL AMERICA. PRESIDENT REAGAN HAS ENDORSED THIS RECOMMENDATION. IF THE NECESSARY LEGISLATION PASSES CONGRESS, PEACE CORPS WILL BE AT THE FOREFRONT OF GOOD WILL AND SKILL-SHARING IN CENTRAL AMERICA, DOUBLING OUR EFFORTS IN LITERACY TRAINING, TEACHER TRAINING, HEALTH, NUTRITION, SMALL BUSINESS, AND AGRICULTURE.

ANOTHER POSITIVE EVALUATION OF PEACE CORPS CAME IN AN INTERNAL REVIEW OF COUNTRY PROGRAMS SUBMITTED BY SECRETARY OF STATE SHULTZ AND MYSELF TO PRESIDENT REAGAN. THIS REPORT CONCLUDED THAT THE PEACE CORPS MAKES SIGNIFICANT LONG-TERM CONTRIBUTIONS TO OUR FOREIGN POLICY IN THREE AREAS: 1) BY PROMOTING DEVELOPMENT; 2) BY CONTRIBUTING TO U.S. PUBLIC DIPLOMACY; AND 3) BY EDUCATING

AMERICANS ABOUT CONDITIONS IN THE THIRD WORLD. IN THE PREPARATION OF THIS REVIEW, TWENTY U.S. AMBASSADORS, REPRESENTING A GEOGRAPHIC CROSS-SECTION OF THE DEVELOPING WORLD, EXPRESSED A UNANIMOUS PERCEPTION OF THE PEACE CORPS AS EFFECTIVE IN PROMOTING BOTH DEVELOPMENTAL AND PUBLIC DIPLOMACY GOALS IN THEIR COUNTRIES. WITH THIS BUDGET REQUEST, THIS ADMINISTRATION IS AFFIRMING ITS CONTINUED SUPPORT FOR THE PEACE CORPS, A SUPPORT THAT FULLY RECOGNIZES THE IMPORTANCE OF THE PEACE CORPS IN THE INTERNATIONAL ARENA.

I WOULD LIKE TO ILLUSTRATE FOR YOU SOME OF THE HIGHLIGHTS OF THIS LAST YEAR AT PEACE CORPS:

A. VOLUNTEER DISTRIBUTION

OVER 5,000 VOLUNTEERS SERVED IN 59 COUNTRIES THROUGHOUT THE WORLD. AMONG THESE:

-- 400 VOLUNTEERS SERVED AS BUSINESS ADVISORS TO COOPERATIVES, CREDIT UNIONS, AND CHAMBERS OF COMMERCE. THEY TRANSFERRED ACCOUNTING, MARKETING AND MANAGEMENT SKILLS TO THEIR LOCAL COUNTERPARTS.

-- 1,800 VOLUNTEERS PROVIDED TECHNICAL ASSISTANCE IN A VARIETY OF AGRICULTURAL AND RURAL DEVELOPMENT PROJECTS. MOST OF THESE VOLUNTEERS HELPED SMALL FARMERS IMPROVE THEIR CROP MANAGEMENT TECHNIQUES. AGRICULTURAL EXTENSIONISTS, TRAINERS AND TEACHERS ALSO TRANSFERRED SKILLS IN LIVESTOCK AND FISHERIES DEVELOPMENT SYSTEMS.

-- 800 RENEWABLE ENERGY/APPROPRIATE TECHNOLOGY VOLUNTEERS WORKED FULL-TIME ON ENERGY-CONSERVING STOVES, CHARCOAL PRODUCTION, SOLAR FOOD DRYING, BIOGAS PRODUCTION AND BLACKSMITHING. ANOTHER 475 WORKED IN THESE AREAS IN SECONDARY PROJECTS TO COMPLEMENT THEIR EXISTING JOB ASSIGNMENTS.

-- 450 VOLUNTEERS SERVED AS PLANNERS, DESIGNERS AND SUPERVISORS OF THE CONSTRUCTION OF SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS. VOLUNTEERS ALSO ASSISTED IN DEVELOPING VILLAGE SANITATION SYSTEMS. THEY PROVIDED TECHNICAL ASSISTANCE TO MINISTRIES AND RURAL GROUPS IN THE OPERATION AND MAINTENANCE OF POTABLE WATER

SYSTEMS. THEIR WORK HAS ENABLED POOR RURAL COMMUNITIES TO INCREASE AND GAIN CONTROL OVER THEIR WATER RESOURCES.

-- 900 VOLUNTEERS WORKED ON HEALTH EDUCATION AND COMMUNITY HEALTH ORGANIZATION. THESE EFFORTS INCREASED THE ABILITY OF COMMUNITIES AND INDIVIDUALS (PARTICULARLY WOMEN) TO MEET THEIR OWN HEALTH AND NUTRITIONAL NEEDS IN A SELF-RELIANT WAY.

B. NEW COUNTRY ENTRIES

WE WERE VERY PLEASED TO ACCOMPLISH THE FOLLOWING NEW COUNTRY ENTRIES THIS PAST YEAR:

-- THE ARRIVAL IN MARCH 1983 OF SIX VOLUNTEERS IN HAITI, WHERE A PROGRAM WAS ESTABLISHED FOR THE FIRST TIME IN PEACE CORPS HISTORY. THERE ARE NOW TEN PEACE CORPS VOLUNTEERS WORKING THERE IN FORESTRY, VOCATIONAL EDUCATION, PUBLIC HEALTH, AND APPROPRIATE TECHNOLOGY PROJECTS. WE THANK THE MEMBERS OF THIS COMMITTEE FOR THEIR SUPPORT AND ENCOURAGEMENT IN THIS ENDEAVOR.

-- THE SPRING 1983 INAUGURATION OF A PEACE CORPS PROGRAM IN BURUNDI, PLACING THIRTEEN VOLUNTEERS IN EDUCATION AND AGRICULTURE.

-- THE SIGNING, THREE MONTHS AGO, OF A COUNTRY AGREEMENT WITH SRI LANKA, AND THE DECEMBER ARRIVAL OF THE FIRST GROUP OF TRAINEES WHO WILL BE TEACHING IN A NEW ENGLISH EDUCATION PROGRAM CRITICAL TO SRI LANKA'S GOAL OF INCREASING THE NUMBER OF ENGLISH TEACHERS BY 9000 IN THE NEXT FIVE YEARS.

-- THE RE-ESTABLISHMENT OF A PEACE CORPS PROGRAM IN GRENADA, BEGINNING WITH TWO VOLUNTEERS IN EDUCATION. WE EXPECT TO INCREASE THESE NUMBERS, HOPEFULLY TO FOURTEEN BY NEXT JUNE, WITH VOLUNTEERS WORKING IN THE AREAS OF EDUCATION, HEALTH, AND AGRICULTURE. WE PLAN TO FURTHER INCREASE THE NUMBER OF VOLUNTEERS BY SEPTEMBER IF FEASIBLE.

WE ALSO COMPLETED TWO COUNTRY WITHDRAWALS. THE TWO YEAR PHASED-OUT DEPARTURE OF THE PEACE CORPS/MALAYSIA PROGRAM WAS COMPLETED, IN NOVEMBER 1983.

THIS EXIT WAS BASED ON THE INCREASED LEVEL OF DEVELOPMENT OF THAT COUNTRY. WE CONCLUDED OUR PROGRAM IN OMAN IN LATE MAY, 1983.

C. NEW PILOT PROJECTS; INTERAGENCY AGREEMENTS

IN ADDITION TO THE NEW COUNTRY ENTRIES JUST MENTIONED, WE SAW THE PLANNING, AND IN SOME CASES THE IMPLEMENTATION, OF NEW PILOT PROGRAMS IN COUNTRIES WHERE PEACE CORPS ALREADY HAS A PRESENCE, SUCH AS:

-- THE IMPLEMENTATION OF A PILOT SELF-HELP HOUSING PROGRAM IN COSTA RICA WHICH RECEIVED A $300,000 ONE-YEAR GRANT FROM AID. FOURTEEN PEACE CORPS VOLUNTEERS ARE WORKING ON THIS PROJECT WHICH IS DESIGNED TO NOT ONLY HELP LOW-INCOME FAMILIES UPGRADE THEIR HOUSING, BUT ALSO TO SERVE AS A WIDER-BASED COMMUNITY DEVELOPMENT PROCESS. THIS PROJECT WILL SERVE AS A PROTOTYPE FOR FUTURE ONES IN OTHER LATIN AMERICAN COUNTRIES.

-- THE PLANNING OF TWO NEW INTERAGENCY PROJECTS OF WHICH PEACE CORPS IS AN INTEGRAL PART: 1) THE TEACHER-TEXT-TECHNOLOGY (TTT) PROJECT, IN WHICH PEACE CORPS WORKS WITH AID, DEPARTMENT OF STATE, AND USIA TO ASSIST SELECTED COUNTRIES DEVELOP AND UPGRADE THE QUALITY OF EDUCATION AT THE SECONDARY AS WELL AS THE HIGHER EDUCATION LEVELS; 2) THE COMBATING COMMUNICABLE CHILDHOOD DISEASES PROJECT (CCCD)--A JOINT PROJECT GRANT AGREEMENT BETWEEN PC/AFRICA AND AID, TO OFFER TECHNICAL AND TRAINING ASSISTANCE TO SELECT PILOT COUNTRIES ADDRESSING THE HEALTH ISSUES SURROUNDING IMMUNIZATION, MALARIA, ORAL REHYDRATION, AND DIARRHEAL DISEASE.

D. PRIVATE SECTOR SUPPORT INCREASING--PEACE CORPS PARTNERSHIP BENEFITS.

THE OFFICE OF PRIVATE SECTOR DEVELOPMENT (OPSD) WAS CREATED AT THE PEACE CORPS IN DIRECT RESPONSE TO THIS ADMINISTRATION'S STRONG EMPHASIS ON PRIVATE SECTOR INITIATIVES. A PRIMARY GOAL OF THE OFFICE IS TO INCREASE SUBSTANTIALLY THE LEVELS OF SUPPORT AND PARTICIPATION OF THE PRIVATE SECTOR IN PEACE CORPS PROGRAMS AND ACTIVITIES. IT SERVES AS THE FOCAL POINT FOR IDENTIFYING AND

COORDINATING GIFTS AND CONTRIBUTIONS TO THE PEACE CORPS TO FURTHER ITS OVERALL PURPOSE AND MISSION IN DEVELOPING COUNTRIES.

IN FY 1984, THE OFFICE OF PRIVATE SECTOR DEVELOPMENT FOCUSED ITS EFFORTS ON FACILITATING THE DONATION OF IN-KIND GIFTS AND CONTRIBUTIONS, AND DIRECT FINANCIAL ASSISTANCE TO PEACE CORPS PARTNERSHIP PROJECTS.

THE OFFICE OF PRIVATE SECTOR DEVELOPMENT ACHIEVED SEVERAL SUCCESSES THIS PAST YEAR. IT REACHED AGREEMENTS WITH A VARIETY OF COMPANIES TO TRANSPORT FREE-OF-CHARGE SEED, BOOKS, DENTAL EQUIPMENT, AND OTHER VITAL ITEMS CONTRIBUTED TO THE PEACE CORPS BY A VARIETY OF PRIVATE SECTOR SOURCES. THESE DONATIONS WILL REACH OUR PEACE CORPS VOLUNTEERS IN COSTA RICA, DOMINICAN REPUBLIC, BARBADOS, ECUADOR, GUATEMALA, PARAGUAY, AND HONDURAS. WE HOPE SOON TO HAVE OTHER DONORS TRANSPORTING SEED TO VOLUNTEERS SERVING IN THE SUB-SAHARAN AFRICA REGION, NORTH AFRICA, THE NEAR EAST, AND THE PACIFIC.

THE OFFICE OF PRIVATE SECTOR DEVELOPMENT WILL CONTINUE ITS EFFORTS IN FY 85 TO PURSUE STRATEGIES THAT WILL RESULT IN GREATER PARTICIPATION FROM THE PRIVATE SECTOR. ONE WAY TO ACHIEVE THIS GOAL IS THROUGH THE PEACE CORPS PARTNERSHIP PROGRAM, WHICH CELEBRATES ITS TWENTIETH ANNIVERSARY THIS YEAR. THIS PROGRAM OFFERS A UNIQUE COMBINATION OF FINANCIAL ASSISTANCE AND CROSS-CULTURAL EXCHANGE, AND OVER THE PAST TWO DECADES IT HAS PROVIDED THOUSANDS OF AMERICANS WITH THE OPPORTUNITY TO PARTICIPATE IN VITAL PROJECTS UNDERTAKEN BY VOLUNTEERS AND THEIR HOST COUNTRY COMMUNITIES. SINCE 1964 THE PEACE CORPS PARTNERSHIP PROGRAM HAS RAISED OVER $3 MILLION IN SUPPORT OF OVER 2,000 PROJECTS IN HOST COUNTRIES.

IN FY 1983, $94,848 WAS RAISED IN SUPPORT OF PEACE CORPS PARTNERSHIP PROJECTS. THUS FAR THIS YEAR OVER $100,000 IN CASH AND PLEDGES HAS BEEN RAISED, APPROXIMATELY 34% OF OUR GOAL, WHICH IS TO SUPPORT 200 PROJECTS IN FY 1984.

THE PEACE CORPS PARTNERSHIP PROGRAM HELPS TO CARRY OUT PEACE CORPS' THIRD GOAL--"TO PROMOTE A BETTER UNDERSTANDING OF OTHER PEOPLES ON THE PART OF THE AMERICAN PEOPLE."

E. RECRUITMENT STREAMLINED

THE PEACE CORPS CONTINUES ITS PROGRAM OF STREAMLINING THE COMPLEX PROCESS

FOR MATCHING THE THOUSANDS OF REQUESTS FOR VOLUNTEERS OVERSEAS WITH THE QUALIFICATIONS OF THE MANY AMERICANS WHO WISH TO SERVE.

SINCE THE BEGINNING OF FY 1983, THE FOLLOWING IMPROVEMENTS WERE MADE IN OUR RECRUITMENT FUNCTION:

1. OUR AUTOMATED PROJECT COST ACCOUNTING SYSTEM NOW HELPS US TO DEVELOP THE MOST COST-EFFECTIVE METHODS FOR RECRUITING VOLUNTEERS WHO ARE IN HIGH DEMAND OVERSEAS SUCH AS MATH AND SCIENCE TEACHERS AND SKILLED AGRICULTURALISTS. SUCH INDIVIDUALS REMAIN DIFFICULT TO FIND AND EXPENSIVE TO RECRUIT.

2. NEW WORD PROCESSING EQUIPMENT, WHICH ALSO HAS DATA PROCESSING CAPABILITY, HAS BEEN PLACED IN SEVEN AREA OFFICES. THE OTHER OFFICES WILL RECEIVE SUCH EQUIPMENT DURING FY 1984. THE EQUIPMENT WILL HELP SPEED APPLICANT PROCESSING AND ENABLE LOCAL OFFICES TO MAINTAIN BETTER CONTACT WITH COLLEGE PROFESSORS, COMMUNITY LEADERS, MEMBERS OF THE PRESS AND OTHERS WHO CAN HELP US ATTRACT QUALIFIED AMERICANS FOR SERVICE.

F. MINORITY AND SENIOR CITIZEN RECRUITMENT EFFORTS

WE HAVE RECENTLY DELINEATED CERTAIN SPECIFIED AREAS OF THE COUNTRY FOR INCREASED CONCENTRATION IN OUR RECRUITMENT DRIVE SEEKING LARGER NUMBERS OF HISPANIC AMERICANS IN THE PEACE CORPS. WE HAVE SENT RECRUITERS TO COLLEGES AND UNIVERSITIES IN PUERTO RICO, AND WILL BE EXPANDING HISPANIC RECRUITMENT EFFORTS THROUGH THE ESTABLISHMENT OF AN AREA OFFICE IN MIAMI. THE SOUTHWEST (DALLAS, SAN ANTONIO) OFFICES AS WELL AS OUR OFFICES IN LOS ANGELES AND NEW YORK ARE CONTINUING TO DIRECT THEIR EFFORTS TO THE LARGE HISPANIC COMMUNITIES WITHIN THEIR AREAS. AS YOU KNOW, THE KISSINGER COMMISSION ON CENTRAL AMERICA HAS RECOMMENDED THAT THE PEACE CORPS INCREASE ITS PROGRAMS TO COMBAT ILLITERACY IN CENTRAL AMERICA, AND IF THESE PROPOSALS ARE ADOPTED BY CONGRESS, THE PEACE CORPS WILL BE GIVEN ADDITIONAL FUNDING TO MULTIPLY SUCH RECRUITMENT EFFORTS. WE HAVE ALREADY PRODUCED A RECRUITMENT BROCHURE IN SPANISH, AND WE PLAN TO HAVE MORE RADIO SPOTS AND POSTERS AIMED AT ATTRACTING MINORITIES.

I AM PLEASED TO REPORT THAT IN 1983 WE RECEIVED 30% MORE APPLICATIONS FROM BLACK AMERICANS THAN IN 1982. I PLAN TO MEET WITH THE CONGRESSIONAL BLACK

CAUCUS AND THE HISPANIC CAUCUS IN THE NEAR FUTURE TO ELICIT IDEAS FOR FURTHERING OUR RECRUITMENT STRATEGIES GEARED TOWARDS THESE GROUPS.

WE ARE ALSO INVOLVED IN ONGOING EFFORTS TO INCREASE THE NUMBER OF OLDER AMERICANS IN PEACE CORPS. SPECIAL EFFORT HAS BEEN MADE THIS PAST YEAR TO HAVE PEACE CORPS PARTICIPATE IN PRE-RETIREMENT SEMINARS CONDUCTED BY BUSINESS AND INDUSTRY. TOWARD THIS GOAL, WE APPRECIATE THE EXCELLENT COOPERATION WE HAVE RECEIVED FROM MANY ORGANIZATIONS IN AND OUT OF GOVERNMENT, INCLUDING RCA, THE FORD MOTOR COMPANY, AND THE U.S. DEPARTMENT OF AGRICULTURE. IN FY 1985, WE WILL CONTINUE TO EXPAND OUR OUTREACH TO THE SENIOR CITIZEN COMMUNITY THROUGH WORK WITH TRADE ASSOCIATIONS, THE CORPORATE SECTOR, AND COMMITTEES ON CAPITOL HILL.

G. HIGHER PLACEMENT FIGURES

THE PLACEMENT UNIT OF THE PEACE CORPS WAS RESPONSIBLE FOR PLACING 2975 NEW VOLUNTEERS INTO OVERSEAS ASSIGNMENTS IN FY 1983. THIS FIGURE WAS UP FROM 2893 VOLUNTEERS IN FY 1982.

FOR FY 1984, ABOUT 2700 VOLUNTEERS WILL BE PLACED. PEACE CORPS HAS BEEN INCREASINGLY MORE SUCCESSFUL IN RECENT YEARS IN FILLING REQUESTS FROM OVERSEAS, WHICH ARE OFTEN FOR PERSONS WITH SUBSTANTIAL TECHNICAL BACKGROUND. IN FY 1983, 77% OF ALL REQUESTS WERE FILLED AS COMPARED WITH 72% IN FY 1982.

ALSO, AS IS TRADITIONAL, PEACE CORPS CANDIDATES WILL BE SCREENED AND RECEIVE INITIAL INTRODUCTION TO THE PEACE CORPS TRAINING CURRICULUM PRIOR TO OVERSEAS DEPARTURE.

ABOUT 515 CANDIDATES WILL GO THROUGH THE CENTER FOR ASSESSMENT AND TRAINING (CAST) IN FY 1985. THIS EIGHT DAY PROGRAM PROVIDES SCREENING FOR THE MOST SENSITIVE AND DIFFICULT PEACE CORPS ASSIGNMENTS.

THE CREST PROGRAM IS BRIEFER AND LESS EXPENSIVE THAN CAST. A FIVE DAY PROGRAM, CREST WILL BE USED WHEN TRAINING RATHER THAN SELECTION IS THE MAJOR PRIORITY. OVER THE LAST SEVERAL YEARS, THIS PARTICULAR FORM OF STAGING HAS PROVEN HIGHLY POPULAR AMONG NEW VOLUNTEERS, HOST COUNTRY OFFICIALS, AND PEACE CORPS STAFF. ABOUT 1135 CANDIDATES WILL RECEIVE THIS PROGRAM IN FY 1985.

THE TRADITIONAL COMPREHENSIVE STAGING, WHICH RUNS FOR 3½ DAYS, PROVIDES

INITIAL TRAINING AND ORIENTATION BUT DOES NOT PROVIDE EXTENSIVE SELECTION OR TRAINING ACTIVITIES. IT WILL BE USED FOR ABOUT 930 CANDIDATES IN FY 1985.

A MAJOR PROJECT FOR FY 1984 WILL BE TESTING OF THE "OVERSEAS ASSESSMENT INVENTORY." THIS WRITTEN QUESTIONNAIRE MAY PROVIDE INDICATIONS WHETHER A GIVEN APPLICANT CAN ADAPT WELL IN ANOTHER CULTURE, A VERY IMPORTANT INGREDIENT IN SUCCESS OF PEACE CORPS VOLUNTEERS.

H. NEW OFFICE OF MARKETING RESEARCH

A NEW OFFICE OF MARKETING RESEARCH WAS FORMED LATE IN FY 1983. DURING FY 1984 AND FY 1985 THE UNIT WILL UNDERTAKE PROJECTS DESIGNED TO:

- RESEARCH DEMOGRAPHIC TRENDS AND EXPLORE REASONS WHY INDIVIDUALS JOIN THE PEACE CORPS.
- DEVELOP MARKETING STRATEGIES AIMED AT OLDER AMERICANS AND MEMBERS OF MINORITY GROUPS.
- PRODUCE NEW RECRUITMENT POSTERS, BROCHURES, SLIDE SHOWS AND OTHER MATERIALS.
- PLAN NATIONAL ADVERTISING CAMPAIGNS ON RADIO AND TELEVISION.

I. IMPROVED MANAGEMENT

DURING THE PAST YEAR, WE HAVE CONTINUED TO IMPROVE THE MANAGEMENT OF VARIOUS SUPPORT SERVICES PROVIDED TO OUR PROGRAM, BOTH AT HOME AND OVERSEAS. WE HAVE STRENGTHENED BOTH OUR ADMINISTRATIVE AND PROGRAM MANAGEMENT BY:

- UPDATING OUR PEACE CORPS MANUAL WHICH INCLUDES AGENCY-WIDE POLICY AND PROCEDURES GUIDELINES;
- REVIEWING AND TESTING OUR INTERNAL CONTROL SYSTEMS;
- INTRODUCING AND TESTING A NEW PROGRAM REVIEW SYSTEM FOR OVERSEAS POSTS, AND AN AUDIT FOLLOW-UP SYSTEM;
- ESTABLISHING AN ADMINISTRATIVE INTERN PROGRAM TO PROVIDE A CADRE OF HIGHLY QUALIFIED ADMINISTRATIVE OFFICERS FOR OVERSEAS; AND

-- EXPANDING THE USE OF AUTOMATED DATA PROCESSING IN FIELD OFFICES AND HEADQUARTERS.

WE WILL CONTINUE TO STRENGTHEN OUR MANAGEMENT SUPPORT ACTIVITIES IN BOTH FY 1984 AND FY 1985.

MANAGEMENT PLANS FOR THIS COMING YEAR INCLUDE:

-- DEVELOPING DETAILED INSTRUCTIONS FOR OVERSEAS POSTS ON THE DEVELOPMENT OF COUNTRY PLANS AND BUDGETS;

-- DEVELOPING STANDARD OPERATING PROCEDURES HANDBOOKS FOR OVERSEAS POSTS, AND TOOLS FOR SELF-EVALUATING MANAGEMENT AND PROGRAM EFFECTIVENESS;

-- CONTINUING TO EXPAND DATA PROCESSING IN FIELD OFFICES, AND THE USE OF MICRO-COMPUTERS IN OVERSEAS POSTS;

-- IMPLEMENTING AND REINFORCING SKILLS DEVELOPMENT TRAINING AT WORKSHOPS FOR OVERSEAS COUNTRY DIRECTORS AND ADMINISTRATIVE OFFICERS;

-- INCLUDING ALL PEACE CORPS OVERSEAS POSTS IN OUR MICRO-COMPUTER NETWORK; AND

-- CONTINUING TO REALLOCATE POSITIONS WHERE FEASIBLE FROM PEACE CORPS HEADQUARTERS TO OVERSEAS POSTS TO ASSURE PRIORITY IS GIVEN TO OVERSEAS STAFFING NEEDS.

J. BETTER TRAINING

AT HEADQUARTERS HERE IN WASHINGTON, THE OFFICE OF TRAINING AND PROGRAM SUPPORT, A MERGER OF THE OFFICES OF PROGRAM DEVELOPMENT AND TRAINING MANAGEMENT COORDINATION, WAS CREATED IN ORDER TO PROVIDE CLOSER COORDINATION BETWEEN TRAINING AND PROGRAM ASSISTANCE TO THE FIELD.

UNDER AN INTERAGENCY AGREEMENT WITH USAID, PEACE CORPS ESTABLISHED A SMALL PROJECTS ASSISTANCE FUND OF $40,000 IN EACH OF 31 COUNTRIES TO PROVIDE PEACE CORPS VOLUNTEERS WITH FUNDS TO SUPPORT SELECTED PROJECTS IN AGRICULTURE, ENERGY AND SMALL ENTERPRISE DEVELOPMENT. A SMALL ENTERPRISE DEVELOPMENT SECTOR

SPECIALIST WAS SUBSEQUENTLY HIRED TO PROVIDE THE AGENCY WITH TECHNICAL EXPERTISE IN ALL AREAS OF INCOME GENERATION. APPROXIMATELY 150 PEACE CORPS VOLUNTEERS IN THE CARIBBEAN AND CENTRAL AMERICAN SUB-REGIONS PARTICIPATED IN TRAINING SESSIONS DESIGNED TO PREPARE VOLUNTEERS TO HELP SMALL-SCALE FARMERS ASSOCIATIONS AND COOPERATIVES IN CONDUCTING FEASIBILITY STUDIES AND CONSTRUCTING BUSINESS AND MARKETING PLANS.

THE ENERGY SECTOR DEVELOPED AND CONDUCTED A MODEL FOOD PRESERVATION IN-SERVICE TRAINING PROGRAM IN FIVE COUNTRIES FOR OVER 100 PEACE CORPS VOLUNTEERS AND 50 HOST COUNTRY NATIONALS. THIS SECTOR ALSO EXPLORED THE POSSIBILITY OF INTRODUCING MICROHYDRO AND PHOTOVOLTAIC TECHNOLOGIES INTO PEACE CORPS ENERGY PROGRAMMING.

THE AGRICULTURE SECTOR DESIGNED AND TESTED A TWO-WEEK AGRICULTURE MARKETING IN-SERVICE TRAINING PROGRAM IN COSTA RICA AND THE PHILIPPINES AND THEN CONDUCTED PROGRAMS IN PAPUA NEW GUINEA AND CAMEROON.

THE FORESTRY SECTOR DESIGNED AND CONDUCTED THREE ONE-WEEK MULTI-COUNTRY IN-SERVICE TRAINING WORKSHOPS IN AGROFORESTRY FOR EIGHTY-FIVE PARTICIPANTS FROM FIFTEEN COUNTRIES IN WHICH 50 PEACE CORPS VOLUNTEERS AND 35 HOST COUNTRY COUNTERPARTS PARTICIPATED.

THESE ARE ONLY A FEW OF THE ONGOING EFFORTS TO PROVIDE THE HIGHEST QUALITY TRAINING TO OUR PEACE CORPS VOLUNTEERS, WHO IN TURN IMPART THIS VITAL KNOWLEDGE TO THE PEOPLE IN THE LESSER DEVELOPED COUNTRIES.

K. PEACE CORPS CALLED TO ASSIST IN DISASTER SITUATIONS

MORE AND MORE, PEACE CORPS IS BEING RECOGNIZED AS AN EFFECTIVE, HUMANITARIAN FORM OF ASSISTANCE IN DISASTER SITUATIONS. FOR EXAMPLE, IN RESPONSE TO THE SEVERE DROUGHT IN BOTSWANA AND AT THE REQUEST OF THAT GOVERNMENT, PEACE CORPS/BOTSWANA QUICKLY ARRANGED A DROUGHT RELIEF PROGRAM. A CALL WENT OUT FOR THIRD-YEAR EXTENSION VOLUNTEERS WITH SKILLS IN GENERAL CONSTRUCTION, MASONRY, CARPENTRY, AND PLUMBING. PEACE CORPS/LESOTHO, GHANA, AND HONDURAS RESPONDED, PROVIDING A TOTAL OF EIGHT VOLUNTEERS WHO ASSISTED IN ROAD CONSTRUCTION AND PUBLIC WORKS.

IN GHANA, TWO VOLUNTEERS WORKED WITH EMERGENCY FOOD AID DURING THE

REPATRIATION OF AN ESTIMATED ONE MILLION GHANAIANS FROM NIGERIA.

PEACE CORPS WAS ABLE TO PROVIDE VOLUNTEERS TO HELP IN INITIAL RECONSTRUCTION EFFORTS FOLLOWING THE DISASTROUS EARTHQUAKE IN YEMEN. PEACE CORPS VOLUNTEER MICHAEL BOLSTER, OF PRINCETON, NEW JERSEY, WAS HONORED FOR THIS EFFORT BY PRESIDENT REAGAN.

IN ADDITION, SISTER MADELINE CHORMAN, ALSO NAMED AN OUTSTANDING PEACE CORPS VOLUNTEER IN 1983 (FOR HER MANAGEMENT OF THE KORLE BU HOSPITAL CANTEEN IN ACCRA, GHANA), RECEIVED A DONATION OF OVER FOUR TONS OF FLOUR AS A RESULT OF HER PERSONAL REQUEST TO PRESIDENT REAGAN DURING THE AWARD CEREMONY AT THE WHITE HOUSE.

II. THE BUDGET REQUEST

WE SUPPORT THE ADMINISTRATION'S REQUEST TO APPROPRIATE $124,000,000 FOR ACTIVITIES UNDER THE PEACE CORPS ACT FOR FISCAL YEAR 1985. WITHIN THE $124,000,000 IS INCLUDED A SUM OF $9 MILLION DOLLARS, TRANSMITTED AS PART OF THE ADMINISTRATION'S RESPONSE TO THE REPORT OF THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA FOR NEW ACTIVITIES THAT SUPPORT THE COMMISSION'S RECOMMENDATIONS. THIS REQUEST, INCLUDING THE $9,000,000 INCREMENT FOR NEW CENTRAL AMERICA ACTIVITIES, WILL SUPPORT A MODEST OVERALL PROGRAM INCREASE FOR THE PEACE CORPS IN 1985.

OUR 1985 REQUEST HAS BEEN DEVELOPED IN FULL COORDINATION WITH THE DEPARTMENT OF STATE AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

OTHER HIGHLIGHTS OF THIS BUDGET REQUEST FOR 1985 INCLUDE:

-- INCREASING OUR GRENADA PROGRAM, WHICH WILL BEGIN THIS CALENDAR YEAR, TO A FULLY OPERATIONAL LEVEL;

-- MAINTAINING SUPPORT FOR THE ADMINISTRATION'S CARIBBEAN BASIN INITIATIVE BY TRAINING LOCAL CARIBBEAN AGRICULTURAL ENTREPRENEURS TO CARRY OUT SUCH BASIC BUSINESS FUNCTIONS AS FEASIBILITY STUDIES, INVENTORY CONTROL, PRODUCT DEVELOPMENT AND MARKETING;

-- EXPANDING THE SMALL ENTERPRISE DEVELOPMENT SECTOR WORLDWIDE BY ENHANCING

THE BUSINESS SKILLS NOT ONLY OF VOLUNTEERS WITH BUSINESS BACKGROUNDS, BUT ALSO OF VOLUNTEERS WITH LIMITED BUSINESS EXPERIENCE; AND

-- UPGRADING THE ADMINISTRATIVE CAPABILITY OF OUR POSTS BY PURCHASING AND INSTALLING DESKTOP COMPUTERS IN NINE OVERSEAS POSTS, BRINGING THE TOTAL NUMBER OF POSTS WITH DESKTOP COMPUTERS TO FORTY-SEVEN.

THE 1985 BUDGET REQUEST AFFIRMS THE IMPORTANCE OF THE PEACE CORPS NOT ONLY AS A VITAL COMPONENT OF THE OVERALL U.S. APPROACH TO INTERNATIONAL DEVELOPMENT, BUT ALSO AS AN IMPORTANT VEHICLE OF PUBLIC DIPLOMACY, TEACHING THE PEOPLES OF THE DEVELOPING WORLD AND THE UNITED STATES ABOUT EACH OTHER. ONE OF THE NOTEWORTHY RESULTS OF A RECENT SURVEY OF OUR AMBASSADORS WAS THE LARGE NUMBER OF TESTIMONIALS TO THE EXTRAORDINARY ABILITY OF OUR VOLUNTEERS TO BUILDING LASTING CROSS-CULTURAL RELATIONSHIPS. THESE LASTING RELATIONSHIPS ARE AMONG THE MOST IMPORTANT OUTCOMES OF PEACE CORPS PROGRAMMING.

III. OTHER LEGISLATIVE PROPOSALS

S. 2321 WOULD CORRECT AN UNINTENDED CHANGE IN THE PEACE CORPS AUTHORITY TO EMPLOY FOREIGN NATIONALS ABROAD MADE BY THE FOREIGN SERVICE ACT OF 1980. PRIOR TO THE PASSAGE OF THAT ACT, THE PEACE CORPS COULD EMPLOY FOREIGN NATIONALS FOR INDEFINITE PERIODS. UNDER THE NEW PROVISIONS ENACTED BY THE FOREIGN SERVICE ACT, THEY HAVE BEEN SUBJECTED TO THE FIVE YEAR LIMIT ON PEACE CORPS EMPLOYMENT WHICH IS APPLICABLE TO U.S. CITIZENS, AND THE CONCOMITANT "OUT AS LONG AS IN" RULE. FOREIGN NATIONAL EMPLOYEES PROVIDE NECESSARY ADMINISTRATIVE SUPPORT ABROAD. THE PEACE CORPS POSTS WILL LOSE MANY OF THESE VALUABLE EMPLOYEES IN THE NEXT FEW YEARS UNLESS THEY ARE EXEMPTED FROM THESE TWO RULES.

PEACE CORPS TECHNICAL PUBLICATIONS CONTAIN MUCH INFORMATION WHICH IS VALUABLE TO PRIVATE VOLUNTARY ORGANIZATIONS AND HOST-COUNTRY MINISTRIES. THE BILL PROPOSES AN AMENDMENT TO THE PEACE CORPS ACT WHICH WOULD FACILITATE DISSEMINATION OF THIS VALUABLE INFORMATION BY AUTHORIZING THE PEACE CORPS TO SELL ITS TECHNICAL PUBLICATIONS AT COST, AND TO CREDIT THE PROCEEDS OF SUCH SALES TO ITS CURRENT APPROPRIATIONS. THE PEACE CORPS CANNOT AFFORD TO PROVIDE LARGE NUMBERS OF ITS PUBLICATION GRATIS, OR WITHOUT BEING ABLE TO RECOUP, FOR

ITS OWN USE, THE PROCEEDS OF SALES. UNDER PRESENT LAW, THE PROCEEDS OF SUCH SALES MUST BE REMITTED TO THE TREASURY.

* * * *

GLOBAL INTERDEPENDENCE -- POLITICAL AS WELL AS ECONOMIC -- IS ONE OF THE HALLMARKS OF THE 1980'S. IN THAT CONTEXT, OVER 100,000 PEACE CORPS VOLUNTEERS HAVE SERVED ABROAD, PROVIDING DIRECT ASSISTANCE TO LITERALLY MILLIONS OF PEOPLE ON AN INDIVIDUAL BASIS. BEYOND THE ECONOMIC BENEFITS TO THE UNITED STATES THAT RESULT FROM STABILIZING AND DEVELOPING THE ECONOMIES OF POORER NATIONS, AN INCALCULABLE RESERVOIR OF INTERNATIONAL GOODWILL HAS BEEN GENERATED BY THESE VOLUNTEERS THAT IS INVALUABLE FOR US TODAY.

THANK YOU FOR THIS OPPORTUNITY TO TESTIFY BEFORE YOU TODAY.

VOLUNTEERS IN CENTRAL AMERICA

Senator KASTEN. The Kissinger Commission, and you mention this briefly in your statement, and in a bit more detail in your prepared remarks, has recommended that the Peace Corps increase the number of volunteers in the Central American region.

It is my understanding that they are talking about from a current level of about 600 to five or six times that number. Is that true?

Mrs. RUPPE. The Kissinger Commission, in its recommendation, did say that they would like the Peace Corps to work on creating both a Literacy Corps and a Teacher Corps, plus increasing projects in health, housing, and small business.

When we actually did our programing, we started out with a doubling of the size of this Corps in Central America, which would mean adding about 141 volunteer-years the first year, up to a peak, in 1988, of an additional 750 volunteer-years, and a phaseout by 1990. That is working in close coordination with the Agency for International Development (AID) and the private voluntary organizations. It also assumes a Panama reentry.

Right now, we are in Belize, Guatemala, Costa Rica, and Honduras with the 600 volunteers that you mentioned. This proposal would increase that number going into fiscal year 1985, and would create a Literacy Corps and a Teacher Corps, and increase our health, housing, and small business programs.

Senator KASTEN. It is our understanding, and we are checking right now, that the Peace Corps congressional presentation document, in fact, shows a net decrease in volunteer levels for some of these areas, Costa Rica, Guatemala, and Honduras, in particular. That is not your intention?

Mrs. RUPPE. No; it is really to double the program in a 5-year period.

Senator KASTEN. You have two different places where you are listing numbers of volunteers in what you sent to us?

Mr. WILSON. We have not submitted volunteers by country to the Kissinger Commission.

Senator KASTEN. I am having trouble hearing you, and the people in the back are particularly having trouble hearing you. Why don't you identify yourself, also?

Mr. WILSON. My name is Tom Wilson, and I am the Financial Management Director for the Peace Corps.

This document was prepared before the Kissinger proposals were finalized, and it does not include incremental volunteers as a result of that initiative.

INCREASE IN CENTRAL AMERICAN PROGRAM

Senator KASTEN. The Peace Corps does plan to expand its Central American program to coincide with the recommendations, and you are thinking of roughly doubling the number of volunteers in the next 5 years, is that right?

Mrs. RUPPE. Yes.

Senator KASTEN. Am I correct in saying the Commission talked about increasing by approximately five or six times as many people as we have?

Mrs. RUPPE. That is what they recommended, yes.

Senator KASTEN. But you decided to double now. How much is this going to cost?

You say that you can double within 5 years. Do you have the volunteers?

Do you have the ability to do this, or is this going to be over and above the dollar amounts that you are asking for, and that OMB has OK'ed?

I don't understand how the Kissinger Commission add-on, if that is what we can call it, is related to the numbers and the assumptions that we have before us today.

Mrs. RUPPE. It is definitely related.

Senator KASTEN. Is it included in what we have now, or are you going to be coming back asking for a Kissinger Commission supplemental of some kind having to do with the Peace Corps?

BUDGET REQUEST FOR KISSINGER COMMISSION

Mr. WILSON. Our original request was for $115 million, Mr. Chairman. The administration is also requesting an additional $9 million to fund the Kissinger Commission initiatives for a total of $124 million in fiscal year 1985.

Mrs. RUPPE. Within the $124 million is included the $9 million transmitted as part of the administration's response to the report of the National Bipartisan Commission on Central America for new activities for the Peace Corps that support the Commission's recommendation.

Senator KASTEN. We, right now, don't have any breakdowns or any information on this additional amount or additional people, or doubling over 5 years. I would ask that you supply the committee with that information, so that we have a chance to review it.

Maybe you can answer this for the record, or perhaps you could answer it right now, it seems to me that if you are going to double the number of people down there, along with that there will be certain administrative and logistical requirements as well.

Are these increased management, administrative, and logistical functions included in your request right now, or does that also change in terms of your overall effort here?

Mrs. RUPPE. The overall effort of $115 million is very well listed, I think, in our congressional presentation.

RECRUITING IN SOUTHERN AND SUN BELT AREAS

The Kissinger Commission part required $2 million in start-up costs under the supplemental for fiscal year 1984, and we have a complete plan worked out for opening recruiting centers in Hispanic areas, Miami in particular, which we feel will not only be valuable for supplying more people fluent in Spanish to our program in Central America, but it is also an area of the country that thus far has been noticeably light in recruiting.

Throughout the Sun Belt, where the population of the United States is really moving, we have done very little to increase our recruiting, mainly because we tend to go to the historic areas.

With such a short budget as we have had in the last years, we normally go back to the same places over and over. So we felt that it would be very valuable, and in that $2 million start-up cost is that capability of focusing on the Hispanic areas.

We have already done a Hispanic recruitment campaign, and we are expanding in Puerto Rico, because in order to teach literacy, you really need a tremendous fluency in Spanish. So we are particularly on the outlook for Americans with a Hispanic background.

Along with the start-up costs for recruitment, costs are included for programing and the additional staff in Central America to ensure the health and safety of our volunteers. We must have them well placed. We have already seen a great amount of interest in the countries that we are already in, in Central America.

As a matter of fact, two of our country directors from Honduras and Guatemala were just in Miami, and they both said that they have seen a very strong interest on the part of the ministries of education, and the different ministries that they work with, for this type of increase.

It is going to be very difficult for us, because of our long-term recruiting, programing method or timeframe, if the funds don't come through until the end of the year. It certainly does place an additional burden because we really only have the funds right now to maintain the numbers in Central America that we have there now.

So we are hopeful that the supplemental would go through that would give us the ability to place volunteers for the next school year, even though now it is so late that that is going to be difficult.

Senator KASTEN. The supplemental is a ways away, too, because we just made the decision to go ahead with some of the funds, without worrying about the whole supplemental being dragged out.

AREAS OF TRADITIONAL RECRUITING

You mentioned the Sun Belt. Traditionally, Peace Corps volunteers have basically been from white, middle, and upper-income Northern and Eastern colleges.

Mrs. RUPPE. And California.

Senator KASTEN. And California?

Mrs. RUPPE. From Washington, Oregon, and California largely.

Senator KASTEN. Is it a geographic question, or what is the response, for example, among the American Hispanics toward participating in the Peace Corps, and volunteering for Peace Corps?

Mrs. RUPPE. It has been very strong, because they finally understand that we really want them, because we have updated our recruitment efforts.

We have really suffered in the last years from a lack of public awareness in those areas, but once we come and tell them about it, we found a strong sense of commitment, an eagerness to serve. We feel that by putting recruiting and more public awareness into those areas, we can definitely recruit.

It is very sad to me to see many of our Southern States with very low numbers of volunteers. Texas has only provided 1,500 volunteers over 23 years. I think that is mainly because we have only recruited on the University of Texas campus, and we just didn't have the ability get our message out.

So we are very eager to get into the Sun Belt States where the population is going, and giving all Americans an opportunity to serve in one of the most terrific experiences in giving of themselves that there is.

SAFETY OF PEACE CORPS VOLUNTEERS IN CENTRAL AMERICA

Senator KASTEN. Have you had any discussions with any of the people who are there or others in terms of the ability to guarantee the safety of Peace Corps volunteers in Central America?

Obviously, there is a big difference from country to country, but if we increase the group significantly, it seems that there may be some problems. We just lost a Newsweek photographer last week, and there are more and more different problems in all of the different countries.

Can you talk a little bit about how you have assessed the climate, and what you can do to guarantee the safety of our volunteers as we increase their numbers in Central America?

Mrs. RUPPE. That is why the additional money is very important to us, because we need to get staff in there. We need to do proper programing so that we are in areas of the country where our volunteers would not be endangered.

I think it is interesting to look at Guatemala, as far as Peace Corps goes in the past several years. When I was appointed Director, we were reducing our program, and we were very concerned about violence there, so we pulled volunteers out of areas where we felt they were endangered, and we put them in other areas, such as the Oriente Province where there is no violence. They are working in rural villages.

We can be effective if we do the proper programing, and if we have the jobs well established in areas where there isn't violence. These countries have many areas that are relatively free of violence. We can increase the volunteers who are working on the problems. As the former President of Guatemala said, "Your volunteers are working on the real enemies of Guatemala—hunger, illiteracy, lack of agricultural production."

We are convinced, and the reports that we got from our country directors indicate, that there are ample numbers of projects that our volunteers could be involved in without any serious problems of health and safety.

Certainly that would be an ongoing review, Mr. Chairman. We have no desire and do not feel that it is the role of our volunteers to be placed in physical danger. So we would be constantly evaluating, but we do feel that we can do it.

PROGRAM IN GRENADA

Senator KASTEN. You mentioned briefly in your statement, and you also say in your prepared statement, that you are increasing the Grenada program to a fully operational level. In your justification material, under Eastern Caribbean, you say that 30 volunteers will be working there in education, health, and agriculture. Then you just explained to us that you had two education experts that were there right now.

Mrs. RUPPE. Yes.

Senator KASTEN. Could you just give us a little bit more detail on what the plans are for Grenada; how long it is going to take; what kind of things are they going to be doing in education, health, and agriculture?

I was there a couple of months ago, and it seems to me that it would be an ideal place for a very, very strong Peace Corps program right now. But I am interested in your plans for Grenada.

Mrs. RUPPE. It was of great interest to us that Governor General Scoon, who has been in the teaching profession and had known Peace Corps teachers in Grenada over the years, requested Peace Corps as one of the first U.S. presences that he wanted back in Grenada. Our last volunteer had left in the summer of 1982.

In January 1984, two of our volunteers were placed in Grenada—a Spanish teacher and a business education instructor. Reports from our Peace Corps Eastern Caribbean staff and from the volunteers indicate that they have received a warm welcome and their teaching duties are going well.

The progaming plan has already been submitted. By the summer of 1984, we plan to have recruited, placed, and trained 14 volunteers as follows: four science instructors, four Spanish teachers, two French teachers, three mathematics teachers, and one physical therapist.

Toward the end of fiscal year 1984, we would expect to have a fully operational Peace Corps program of approximately 16 volunteers working predominantly in education, and smaller numbers in health and agriculture.

So in the coming months, our staff will be working closely with the Government of Grenada officials to assist in alleviating their critical short-term needs, and also to identify the areas of sustained programing for the long term.

Senator KASTEN. Thank you.

PROCEEDS FROM SALE OF PEACE CORPS TECHNICAL PUBLICATIONS

In your statement on page 16, you state the Peace Corps should be allowed to keep the proceeds from sales of technical publications, instead of these funds being remitted to the Treasury.

There is a series of questions concerning the substance of these publications, and, in fact, are these similar to Department of State publications, or Department of Agriculture publications, and how all this works.

So there will be a series of questions that I think would just be more appropriate to be submitted for the record, and I will do so.

ABORTION QUESTION

There have been a number of things written regarding the Peace Corps' policy on the issue of abortion. I understand that there is another piece in the newspaper today.

There certainly has been a lot of controversy about your agency in terms of the policy with regard to abortion.

I wonder if you would like to make a brief comment about it. I just want to say that the subcommittee and the Congress are concerned about the use of taxpayer dollars. We are also concerned about exactly what the Peace Corps is doing, and how that might be different from other Government agencies.

I guess that is the question that I would like to ask you right now. Is the Peace Corps policy on this whole set of issues, in terms of transportation, et cetera, significantly different from the policies of AID or of any of the Government agencies that have people all around the world?

Mrs. RUPPE. No; it really isn't significantly different. The only difference is that you are dealing with volunteers who are totally dependent upon the Peace Corps for any health support, any sort of medical care.

I am glad that you brought this subject up, because I think the Peace Corps has really been vilified on this issue.

I, as a Right-to-Life/Pro-Life person myself, serving an administration that is extremely Right-to-Life/Pro-Life oriented, have done everything to uphold the law. We have directed and worked into our training and programing the highest standards in this respect.

I am glad that you brought this up because I would like to submit a statement, and I would be happy to answer any of your questions.

As you know, we are prohibited from paying for abortions in our legislation. We have strongly adhered to that. We have redoubled our efforts to work on the feeling of responsibility of our volunteers. I would be happy to get the statistics on what a small number we are talking about, and how the agency has made every effort to comply with the law, and to ensure the health and safety of our volunteers.

[The information follows:]

Peace Corps Volunteer Pregnancies, 1983

Outcome of Pregnancy Cases

	Number of Pregnancies	Interupted by Abortions	Pregnancy Continued	Total
AFRICA	39	35	4	39
INTER-AMERICA	27	27		27
NANEAP	2	2		2
TOTAL	68	64	4	68

PEACE CORPS PREGNANCY POLICY

A thorough review of the Peace Corps pregnancy policy was completed in conjunction with the General Counsel and Medical Services. The primary focus is on the goal of reducing--hopefully eliminating--unwanted pregnancies because of the loss of volunteer time from assignments, the potential harmful effect such pregnancies and associated behavior may have on the credibility of our Volunteers, expenditure of scarce dollars on medical care and transportation, and, most importantly, to carry out the policy of this Administration to discourage abortion as a method of birth control.

Because of the requirements of U.S. law, most of the present rules concerning pregnancy as they are set forth in MS 242 will remain in place with the following important modifications:

a. Sexual responsibility will be emphasized during staging and training. Family planning and sex education will be provided. Male Volunteers' responsibilities with respect to the issue of paternity will not be overlooked in this training;

b. Where appropriate, pregnant Volunteers will receive extensive counseling by Peace Corps Medical Officers/Peace Corps Medical Contractors (PCMO/PCMCs) regarding alternative means of dealing with pregnancy, including adoption possibilities;

c. Training will be provided by Medical Services to all medical personnel to ensure proper discharge of functions set forth in (a) and (b);

d. PCMO/PCMCs are delegated the responsibility, subject to concurrence by the Office of Medical Services, to determine if the obstetric and infant care available in-country are adequate for a particular birth. The determination of the PCMO/PCMC is binding on the Country Director. If it is determined that it is unsafe, or inappropriate, for a pregnant Volunteer to remain at her post, she will be returned to the United States. Her maternity expenses, through delivery, are the responsibility of the U.S. government.

e. Volunteers who elect to return to the United States for abortions will receive further professional counseling while in the U.S. to ensure that they have an opportunity to review their options in the familiar environment of their own country, and, if desired, to consult with family and friends. As under the present policy, all expenses of the abortion itself must be borne by the Volunteer. The Peace Corps, as mandated by present law, will pay for related travel expenses and counseling;

f. Volunteers who elect to have abortions will, after the procedure has been completed, be provided with additional training in sexual responsibility and in family planning;

g. Pregnancies which come to the attention of Medical Services will be monitored to identify problem countries. Additional training for medical staff and Volunteers may be provided were problems reoccur; and

h. Unwanted pregnancy, if it occurs more than once during a Volunteer's tour, will be deemed evidence of irresponsible behavior incompatible with volunteer service. Therefore, such Volunteers will be separated absent extraordinary circumstances justifying such an occurrence.

STATEMENT ON PREGNANCY POLICY

Mrs. RUPPE. I would be pleased to submit a statement for the record and to answer any questions.

[The information follows:]

STATEMENT ON PREGNANCY POLICY

I appreciate the opportunity to clarify the Peace Corps' policy on pregnancy.

First of all, I want to make it absolutely clear that I have been and continue to be an active opponent of abortion on demand. I believe my record in the pro-life movement speaks for itself. However, as Director of the Peace Corps I took an oath to uphold the law. Consequently, since my appointment I have directed my efforts toward achieving the administration's pro-life policies, but have been limited in my ability to do so by the requirements of legislation and the decisions of the Supreme Court.

When I became the Director of the Peace Corps, I was pleased to learn that I had inherited a policy underwhich abortion procedures were not paid for. However, it did pay for the transportation and per diem to Volunteers who wanted to return to the United States to have the procedure performed. Some counseling was provided, but no effort was made to emphasize training for medical staff and Volunteers which might help to prevent unwanted pregnancy or to ensure that all pregnant Volunteers were well informed of available alternatives to abortion. Finally, there was no established limit to the number of abortions a Volunteer could have and still remain in service.

Needless to say, I found this situation less than satisfactory from both a personal and Administration point of view. However, I realized very early on that any changes in the policy would have to conform to a complex of legislative and judicial mandates which have grown up in this area of the law. Therefore, in early 1981 I directed my General Counsel to provide me with a summary of the legal basis for the existing policy, an examination of how other Federal agencies which provide health care handle the problem and an analysis of the legal options open to me to change the policy so that it more closely related to the Administration's goals and objectives.

This analysis indicated that current authorities appeared to require a continuation of the Peace Corps policy of paying for travel and per diem for Volunteers seeking abortions. In an effort to satisfy myself that we were indeed required to continue this policy, I directed the General Counsel to obtain an opinion from the Justice Department as to whether our continuing payment of appropriated funds for abortions, and whether, if it did not violate the ban, we were at liberty to discontinue the practice, or institute other restrictions in this situation. I directed that this request for an opinion clearly indicate that my objective in asking for guidance was, to quote from the letter, "the well-known position of this Administration regarding abortion, with which we want to comply."

The response received did not, in the view of my legal advisors, leave room for doubt. The payment of transportation costs not only did not violate the Congressional ban, but failure to provide the transportation costs incident to the abortion procedure would constitute a violation of the Pregnancy Discrimination Act (P.L. 95-555) unless the Peace Corps discontinued the practice of medevacing other Volunteers suffering from other medical conditions requiring their return to the United States for treatment.

Since we have full responsibility, as established by Congress, for any medical conditions developed by Volunteers while overseas, many of which require evacuation, I believe I had no choice under the law but to pay similar expenses for pregnant Volunteers returning to the U.S.

I was then faced with determining in what other ways I could modify the policy to reach my goal of substantially reducing -- hopefully eliminating -- the incidence of unwanted pregnancies among the Peace Corps Volunteer population. My answer, which I communicated to the field in a memorandum to all Country Directors and medical staff, was a three pronged effort. First, I instituted a training program for Volunteers in family planning and sexual responsibility and requested an upgrading of the counseling skills of our medical staff in this area. Second, I had the counseling of pregnant Volunteers both in-country and in the United States redesigned to emphasize alternatives to abortions and the prevention of future pregnancies. My medical staff is also interviewing these individuals to try and learn if there are correctible deficiencies in our present system which result in unwarranted pregnancies. Finally, I determined that any Volunteer requesting a second abortion during her tour of service with the Peace Corps was acting with such a degree of irresponsibility that automatic separation from the Peac ecorps was warranted.

I hope that that I have now made my position clear. I am neither trying to promote abortions among Peace Corps Volunteers nor attempting to subvert the Administration's pro-life position. The record shows I have made every effort to reorient Peace Corps policy toward what I believe is a responsible and legal goal -- the prevention of unwanted pregnancy. I am trying to do so under the legal constraints, as outlined by the Department of Justice, in a manner which does not infringe on the rights of individual Volunteers or endanger their health and safety.

SUBMITTED QUESTIONS

Senator KASTEN. I have some questions that I want to submit in writing, in addition to the ones that I spoke about.

I thank you for your participation here this morning. We hope that you can get back to us in a reasonable amount of time with the questions and statistical data that we seek.

We look forward to working with you for one more year as we struggle on together, and possibly for several more years. We thank you very much for what you are doing.

[The following questions were not asked at the hearing, but were submitted to the Peace Corps for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

Senator Kasten: What plans do you have for entering new countries -- aside from Grenada, which we all know about?

Mrs. Ruppe: Our original 1985 budget request contains no funds for new country entries. No exits are planned, either. The Administration's proposal to implement the recommendations of the Bipartisan Commission on Central America includes a request for funds to support a Peace Corps new country entry into Panama. We hope to be able to place six Volunteers in the Sudan through a private Voluntary organization in FY 85. Also, we have just completed a study on the feasibility of entering Equatorial Guinea; the results of this study are under evaluation.

Senator Kasten: You propose in your statement (page 16) that the Peace Corps be allowed to keep the proceeds from sales of its technical publications instead of these funds being remitted to the Treasury.

First of all, can you give us an idea of the substance of these publications? I know the Department of State puts out post reports; Agriculture Department puts out Agricultural reports. What do these publications do differently than is already done by other agencies? How much money are we talking about?

Mrs. Ruppe:

The Peace Corps Office of Information Collection and Exchange (ICE) publishes 100 manuals, reprints, packets and case studies which provide practical, "how-to" information to support the work of Volunteers and staff in nearly 20 program areas. These publications combine a grassroots, village-level approach to development, reflecting Peace Corps' concern with meeting needs as defined by the community itself, with the technical information needed to get a particular job done.

The information in these publications is unique in this field in that it is derived directly from the experience of the Volunteers in the field rather than being research reports, management reports or the like.

Based on current requests for ICE publications from outside the agency, Peace Corps could expect to sell an average of 9000 publications per year. Average cost per publication can be figured at $12.00. Cost factors include: printing costs, handling (staff) costs, shipping costs and administrative overhead. At the current level of demand, selling publications at cost, the agency could expect annual receipts of $108,000.

Based on recent experience, once availability of publications becomes better known, we expect demand to increase upwards of 50 percent. Projected demand in the first year could then be expected to equal 13,500 publications, generating receipts of $162,000.

Attached to this package is a catalogue of manuals, reprints, case studies and resource packets available through Peace

Corps' Information Collection and Exchange (ICE).

Senator Kasten: Can you comment on the areas of assistance and countries in which the Peace Corps and A.I.D. are mutually involved in carrying out A.I.D. efforts?

And could you illustrate the extent to which such mutual efforts have grown over the past few years?

Mrs. Ruppe: Peace Corps collaborates with AID on projects in almost every country where Peace Corps is present. This collaboration can occur in countries where AID has no mission or programs of its own, such as some of the Pacific Islands. The benefits include:

1. The development of many recent programming thrusts such as forestry, oral rehydration therapy, and small projects assistance which has accelerated the implementation of Peace Corps' Forward Plan priorities.

2. The training of host country nationals side by side with their Volunteer counterparts and relevant ministry officials facilitating the process of skill transfer and institution building.

3. The development and testing of technical training manuals in new program areas which once developed, are available for long term Peace Corps use.

Over the past five years collaboration has steadily increased both through financial assistance to support program development at the headquarters level and through the support and guidance of Volunteer assignments in the field. This is manifested in the agencies, through increased financial assistance to small projects identified by Peace Corps Volunteers at the village level and through increased number of Volunteers assigned to AID-funded field projects. Care continues to be given, however, to maintaining the unique contribution each agency makes in the overall approach to development assistance.

Senator Kasten: Are there any significant changes either up or down in the numbers of Volunteers that have been assigned to any particular countries under your budget request?

Mrs. Ruppe: In 1983, Peace Corps closed down its operations in Oman. In 1984, we exited Malaysia and re-established programs in Sri Lanka and Grenada. These significant changes are reflected in our 1985 request. The Peace Corps' plans to increase its presence in Ecuador in 1985 have changed; a modest decline is now planned. Other significant changes include program growth in Haiti and Burundi, as those recently established programs become fully operational. Finally, the Administration's supplemental request for Central America would result in significant growth in 1985 for Peace Corps programs in Honduras, Guatemala, Costa Rica and Belize, and includes the establishment of a new Peace Corps program with the Panamanian government. The remainder of our programs around the world do not experience significant change in the number of Volunteers. Rather, numerical fluctuations in the program size are a function of host country requests in certain skill areas.

PEACE CORPS

A
CATALOGUE
OF
MANUALS
REPRINTS
CASE STUDIES
AND
RESOURCE PACKETS

INFORMATION COLLECTION
AND
EXCHANGE

1983

An introduction to ICE and publications available from this office...

The office of Information Collection and Exchange (ICE) is the central technical information resource for Peace Corps programs in all appropriate technology areas. ICE's role is to support programs in the field with the most relevant, up-to-date technical materials available.

Much of this information has been generated in Peace Corps' 20 years of experience in development work at the community level. Thus ICE serves as a means of collecting the best results of Peace Corps programs in the field and sharing them both with Volunteers and staff and with others working in development outside the agency.

The ICE staff works closely with the office of Programming and Training Support (OTPS) and an expanding network of contacts in other organizations to develop new manuals and reprints based on their grassroots experience and to identify publications from other sources that best meet field program needs.

This catalogue represents over 80 manuals, reprints, packets and case studies that have been published by ICE to answer the technical needs of the field. Single review copies of these publications are available through the ICE office to non Peace Corps requestors working in development agencies and to host country counter-parts and research libraries. Others may obtain copies through the distributors listed on the last page.

As these documents are U.S. Government publications in the public domain they may be reprinted or photocopied without prior written permission. We ask only that these documents be shared widely so as to expand the network of resources available to development workers worldwide.

The technical information compiled here has been made possible through the generous efforts and insights of Volunteers and development workers throughout the Third World. Any contributions to this ICE networking effort would be greatly appreciated.

APPROPRIATE TECHNOLOGIES FOR DEVELOPMENT

INFORMATION COLLECTION & EXCHANGE PUBLICATIONS

Part I
MANUAL SERIES

Based on Peace Corps' field experience in selected technical areas, the volumes in the Manual Series present complete "how-to" information from initial project planning in the community setting to project implementation using appropriate methods and locally available resources. ICE Manuals are written in a format and language appropriate for field workers without specialized technical training.

All titles are available free of charge to Peace Corps Volunteers, staff, host country counterparts, university libraries, and development agencies through ICE. Many ICE Manuals are available for sale to others outside of the Peace Corps community, as indicated for each title. Distributors' addresses are listed on the last page.

Manual Number	
M1A	Freshwater Fisheries: Program Planning. Designed for policy-makers, program planners, trainers, and coordinators, who are considering the potential contribution of freshwater fish pond projects. Topics include feasibility surveys, Peace Corps' involvement in a number of fish culture programs, task analyses, recruitment and evaluation criteria. 1977. 72pp (Available to non-Peace Corps requestors through NTIS.)
M1B	Freshwater Fish Pond Culture and Management. A guide to planning, constructing and maintaining small-scale fish pond operations, with information on selecting warmwater fish, fish diseases and fish preservation. Produced as a joint project with VITA. Copyrighted by VITA. 1976. 191pp. (Available to non-Peace Corps requestors through VITA.)
M2	Small Farm Grain Storage. A practical field manual covering aspects of small-scale grain storage, including plans for grain dryers and storage facilities, and techniques for controlling insects and rodents. Produced as a joint project with VITA. Copyrighted by VITA. 1976. 560pp. (Available to non-Peace Corps requestors through VITA.)
M2B	Programming and Training for Small Farm Grain Storage. Designed for use by Peace Corps agriculture programmers, trainers and Volunteers as they plan projects and develop skill training programs. 1978. 110pp. (Not currently available for sale to the general public.)
M3A	Resources for Development. Describes the role of the development worker, types of resources, how to design a project, guidelines for choosing appropriate resources and basic steps in obtaining resources. Includes listings of U.S. and international organizations and periodicals which provide useful information and support for field workers in developing countries. Revised and up-dated version of former ICE Manual M3, Resources for Development: Organizations and Publications. 1981. 202pp. (Not currently available for sale to the general public.)
M4	The Photonovel: A Tool for Development. Outlines a step-by-step preparation process for creating this visual teaching tool, plus sample photonovel on sanitation. 1976. 105pp. (Available to non-Peace Corps requestors through NTIS.)
M5	Reforestation in Arid Lands. Provides guidelines for planning and carrying out a reforestation project from nursery to planting site, with extensive appendices on the trees, soil, climate and vegetation of sub-Saharan West Africa. Produced as a joint project with VITA. Copyrighted by VITA. 1977. 248pp. (Available to non-Peace Corps requestors through VITA.)

M5A Reboisement des Terres Arides. French version of M5. Copyrighted by VITA. 1980. 234pp. (Available to non-Peace Corps requestors through VITA.)

M6 Self-Help Construction of 1-Story Buildings. Designed for field workers with little or no construction experience. Assists families or communities in planning, designing and constructing one-story buildings (schools, health clinics, homes, etc.) using locally available materials. 1977. 235pp. (Available to non-Peace Corps requestors through NTIS.)

M7 Teaching Conservation in Developing Nations. Provides development workers with ideas, project possibilities and resources for incorporating conservation education into their day-to-day community activities. Produced in conjunction with the National Audubon Society. 1977. 251pp. (Available to non-Peace Corps requestors through NTIS.)

M8 Community Health Education in Developing Countries. Provides an assessment outline, project planning guidelines and suggested health education methods, including visual aids. Identifies common community health problems with recommended solutions. Copyrighted by American Public Health Association, Inc.* 1978. 209pp. (Available to non-Peace Corps requestors through NTIS.)

M9 Wells Construction: Hand Dug and Hand Drilled. Designed as a working and teaching tool for development workers in their field activities. Brings together the principles of wells construction and the practical techniques currently being used and tested around the world. 1980. 284pp. (Not currently available for sale to the general public.)

M10 Preserving Food by Drying: A Math-Science Teaching Manual. A step-by-step experiential approach to learning the scientific principles of solar food drying. The lessons teach construction and use of home food dryers as students are introduced to principles of conduction, evaporation, nutrition, etc. 1980. 150pp. (Not currently available for sale to the general public.)

M11 Practical Poultry Raising. Contains basic instruction on poultry raising, management and marketing. Also includes information for experienced poultry workers on cultural considerations and additional resources. 1981. 225pp. (Available to non-Peace Corps requestors through TransCentury Press.)

M12 Animal Traction. An illustrated manual instructing extension workers and local farmers in the use of draft animals. Includes fundamental information on animal selection, training, hitches and health, as well as animal-drawn equipment, farm planning assistance and extension techniques. Also provides instruction forms, a glossary and a list of resources for more specific information. 1981. 244pp. (Available to non-Peace Corps requestors through P.D. Press or TransCentury Press.)

M13 Traditional Field Crops. Suggests improvement methods to increase small farmer yields of six crops traditionally grown by farmers in developing countries--maize, millet, sorghum, peanuts, beans and cowpeas. Emphasis is on simple methods to improve traditional growing practices among small farmers, with specific up-to-date information on reference crop culture requirements, diseases and pests. Extension techniques and the work of international research organizations for the reference crops are also discussed. 1981. 386pp. (Available to non-Peace Corps requestors through TransCentury Press.)

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M16 Guidelines for Management Consulting Programs for Small-Scale Enterprise. Offers programmatic and technical guidelines designed to assist program planners and management consultants working with small-scale entrepreneurs in developing countries. Primary focus is on management assistance to small, owner-operated industrial firms. Includes discussion of applied techniques, how to organize and teach a seminar to SSE personnel, and advice for consulting on specific SSE-related problems. Appendices provide seminar audio-visual materials, classroom handouts and case studies, as well as forms useful in planning and executing a consultancy. Also included are an extensive annotated bibliography and directories of sources of additional information for the SSE consultant. 1981. 212pp. (Not currently available for sale to the general public.)

M17 Small Scale Beekeeping. An overview of beekeeping and its possibilities as a tool for development. Includes basics of beekeeping, project planning, management schemes, disease control, and a hard-to-find guide to intermediate technology beekeeping systems and methods. 1982. 212pp. (Not currently available for sale to the general public.)

M18 The Agricultural Extension Manual. A how-to manual covering techniques of extension work and community organization. Written for extension workers. Promotes recommended agricultural practises, training of counterparts and a host of other related topics. (Not currently available for sale to the general public.)

M19 Beyond the Borders: Broadening Women's Choice for Income Generation. Manual advocates total human resource development, but is directed toward the women's role in economic growth. It contains problem solving techniques and guidelines for recognizing income generating ventures. It can be used as an assessment tool that provides examples of projects and ideas that can work and have worked in various communities. 1983. (Not currently available for sale to the general public.)

REPRINT SERIES

ICE Reprints are technical monographs selected from Information Collection & Exchange's Resource Center materials on the basis of potential wide usefulness in the field. They are published without re-editing or retyping, and users are expected to adapt techniques to local conditions and needs. Reprints frequently serve as primary resources in developing country-specific publications.

All titles are available free of charge to Peace Corps Volunteers, staff, host country counterparts, university libraries, and development agencies through ICE. Many ICE Reprints are available for sale to others outside of the Peace Corps community, as indicated for each title. Distributors' addresses are listed on the last page.

Reprint Number

R1 Health Education: A Study Unit on Fecal-Borne Disease and Parasites. (PC/Philippines). Provides instructors with materials for teaching students how an individual's habits affect and determine his or her health. Materials for oral presentation include an explanation of the process of digestion, the digestive system and fecal-borne diseases. 1976. 50pp. (Available to non-Peace Corps requestors through NTIS.)

R2 Visual Aids. (PC/Medical Program Divison). Provides various examples of visual aid media including flashcards, pamphlets, posters, flannelgraphs, silkscreen printing, movies, photographs, blackboards, bulletin boards, puppets and slides. Each visual aid includes not only suggestions for ensuring maximum effective usage but also for obtaining or developing materials locally. 1976. 21pp. (Available to non-Peace Corps requestors through NTIS.)

R3 Aids for Health and Home Extension Volunteers. A reprint of former R3, Health Training Resource Material for Peace Corps Volunteers. Contains material on the cultural and environmental aspects of health and sanitation, as well as "how-to" information on community and school health education projects. 1952. 313pp. (Not currently available for sale to the general public.)

R4 Agricultural Mathematics for Peace Corps Volunteers. Practical guide for solving field problems which require mathematical calculations, with review materials; frequently used mathematical reference tables; problems related to water and irrigation, construction, land leveling and crop production and agricultural machinery; and general agricultural information. 1968. 96pp. (Available to non-Peace Corps requestors through NTIS.)

R5 Irrigation Principles and Practices. (Development and Resources Corp.) Basic irrigation principles and techniques, primarily in relation to soil, plants and water. Presented in relatively non-technical language with illustrations and charts. Topics include irrigation principles, water measurement, irrigation, water control, drainage, irrigation planning, with additional information on crop production problems and irrigation implements. 1969. 112pp. (Available to non-Peace Corps requestors through NTIS.)

R6 Crop Production Handbook. (Development and Resources Corp.) Provides explanations, illustrations and charts of soil, plant and water relationships as they affect crop production. Entomology and insect control, cereal crops, pulse crops, sugar, fiber crops, and oil crops are also included. 1969. 147pp. (Available to non-Peace Corps requestors through NTIS.)

R7 Improved Practices in Corn Production: A Guide for Peace Corps Volunteers. (PC Training Center/Puerto Rico). Improving crop yields by simultaneously implementing a variety of practices including use of seed for planting, seed treatment with a fungicide, improved plant spacing and populations, fertilizer use, insect control, weed control and proper storage. 1969. 44pp. (Available to non-Peace Corps requestors through NTIS.)

R8 Soils, Crops and Fertilizer Use. (PC Training Center/Puerto Rico). Designed to give Volunteers the technical information about fertilizer use necessary for effective agricultural education programs. Concentrates on such topics as soils, different kinds of fertilizers, understanding and determining fertilizer needs, and using fertilizers. 1969. 103pp. (Available to non-Peace Corps requestors through NTIS.)

R9 A glossary of Agriculture Terms: Spanish/English, English/Spanish. (American Language Center, American University, Washington, D.C.). Terms frequently used by agriculturalists. 1960. 107pp. (Available to non-Peace Corps requestors through NTIS.)

%10 Guide for Field Crops in the Tropics and Subtropics. (AID). In-depth discussion of climate, soil, cropping and farming systems in non-technical language. Cereal crops, legumes, oil crops, root or tuber crops, bananas, and major fiber and cash crops are addressed. 1976. 321pp. (Available to non-Peace Corps requesters through NTIS.)

R12 An Expanded Collection of Language Informant Techniques. (PC/Regional Training Resource Office/Senegal). Presents practical "how-to" techniques, as well as a useful outline for an overall learning plan for continued language learning in the field without instructors. 1975. 53pp. (Available to non-Peace Corps requestors through NTIS.)

R13 Tales of Wisdom in Folly: A Course in Controlled Composition. (PC/Afghanistan). Collection of the fables of Mullah Nasrudin with increasingly difficult structures, text, language, vocabulary and assignments at the end of each story to improve students' English composition skills. 1976. 43pp. (Available to non-Peace Corps requestors through NTIS.)

R14 Guidelines for Development of a Home Industry. (PC/Ethiopia). Easily understandable, illustrated guidelines useful in considering marketing, production, training and recordkeeping for home industry projects. Sample instructions for some of the activities of the Ethiopia Volunteer Rehabilitation Project are also included. 1976. 59pp. (Available to non-Peace Corps requestors through NTIS.)

R15 L'Utilisation du Silo-Fosse et des Lecons Techniques. (PC/Mali/Chad). Uses and construction of pit silos for storing silage, with lessons suitable for teaching extension workers about ensilage and pit silos. (French) 1976. 41pp. (Available to non-Peace Corps requestors through NTIS.)

R15A Utilization and Consturction of Pit Silos. (PC/Mali/Chad). Provides background information on ensilage crops, harvesting and preservation, followed by instructions for construction of pit silos. A Peace Corps pit silo project in Mali is also evaluated. 1976. 41pp. (Available to non-Peace Corps requestors through NTIS.)

R16 Combatting Hansen's Disease. (PC/Korea). Illustrated presentation of technical information on physiology and immunology, epidemiological-clinico-pathological and public health perspectives. Also includes PC/Korea experience establishing and implementing a leprosy program. 1976. 361pp.(Available to non-Peace Corps requestors through NTIS.)

R17 Glossary of Environmental Terms: Spanish/English, English/Spanish. (PC/Latin America Region). Terms used for discussion and work related to the environment. 1976. 202pp. (Available to non-Peace Corps requestors through NTIS.)

R18 Manual Didactico: Huertos Escolares y Nutricion. (PC/Guatemala). Prepared for Guatemalan nutrition teachers in rural areas, with information on nutrition and materials for planning and implementing school garden programs related to nutrition education. (Spanish) 1976. 132pp. (Available to non-Peace Corps requestors through NTIS.)

R19 Stimulation Activities: Age Birth to Five Years. A handbook of stimulation activities to encourage a child's physical and mental development from birth to age five. Emphasizes the making of low-cost, easily available developmental tools, and gives advice on how to carry out various activities.

R20 Teaching Reading and Creative Writing: A Language Experience Approach. (PC/Belize). Method and complete illustrative materials for teaching reading and writing in adult literacy and TEFL/TESL classes, as well as in elementary school classes. 1977. 111pp. (Available to non-Peace Corps requestors through NTIS.)

R21 Conseils de Sante a la Famille Africaine. (PC/Togo). Illustrated manual in simple French which provides material for teaching about pregnancy and child-birth, infant nutrition and basic health precautions, with recipes for infants' meals. 1977. 126pp. (Available to non-Peace Corps requestors through NTIS.)

R23 Contabilidad para la Micro Empresa: Manual de Ensenanza. (PC/Colombia). A teaching manual for small business accounting. (Spanish) 1977. 105pp. (Available to non-Peace Corps requestors through NTIS.)

R23A Accounting for the Micro-Business: A Teaching Manual. English version of R23. 1976. 76pp. (Not currently available for sale to the general public.)

R24 Strings 'n' Things: A Teaching Manual for the Blind. (PC/Colombia). A guide to teaching macrame for those with little or no experience in working with the blind. 1977. 32pp. (Available to non-Peace Corps requestors through NTIS.)

R25 Intensive Vegetable Gardening for Profit and Self-Sufficiency. (PC/Jamaica). Provides step-by-step guidelines for cultivating vegetables under many agricultural and climatic conditions, organically or with chemical fertilizers. 1978. 159pp. (Available to non-Peace Corps requestors through NTIS.)

R26 Resources for TESOL Teaching. (Peace Corps). Compilation of techniques for teaching English to speakers of other languages; includes pronunciation, grammar, linguistic information, verb list, rules, etc. 1978. 211pp. (Available to non-Peace Corps requestors through NTIS.)

R27 Health and Sanitation Lessons (Africa). (PC/Niger/Gambia). This is the English translation of R27a, Fiches D'Education Sanitaire, French-language materials developed in Niger and updated for use in The Gambia. It describes presentation techniques and outlines step-by-step health presentations, nearly all directed toward women with children. 1979. 94pp. (Not currently available for sale to the general public.)

R27A Fiches D'Education Sanitaire. Adapted by PC/Niger from R21, Conseils de Sante a la Famille Africaine, which was originally produced by PC/Togo. 1971. 160pp. (Not currently available for sale to the general public.)

R27B Health and Sanitation Lessons (Africa): Visual Aids. This set of illustrations is intended as an example to assist with the development of health aids for local use. It can accompany either R27 or R27A. 80pp. (Not currently available for sale to the general public.)

R28 A Glossary of Agricultural Terms: English/French, French/English. (American Language Center, American University, Washington, D.C.). Practical vocabulary for agriculturalists in French-speaking areas. 1979. 59pp. (Available to non-Peace Corps requestors through NTIS.)

R29 Water Purification, Distribution and Sewage Disposal. (VITA) Designed both as a field reference and an instructor's manual for technical training in water sanitation for rural communities. 1969. 243pp. (Not currently available for sale to the general public.)

R30 New Methods Pay with Poultry. (UNICEF). Assesses economics and logistics of poultry raising for small-scale producers and commercial operators. Special reference to intensive housing and deep litter practice. 1964. 30pp. (Not currently available for sale to the general public.)

R31 Orchard Management. (Development and Resources Corp.) Prepared as a training resource. Brief discussion of soils, botany, insects and disease, fruit and nut propagation and grafting. Curricula and experiments included to teach photosynthesis, plant reproduction and transpiration. 1969. 108pp. (Not currently available for sale to the general public.)

R32 Lesson Plans for Beekeeping. (PC/Philippines). Step-by-step procedures and basic technical information for starting small-scale beekeeping projects. 1978. 62pp. (Available to non-Peace Corps requestors through NTIS.)

R33 Bamboo as a Building Material. (USDA, Foreign Agricultural Service). The suitability of bamboo is discussed and presented in diagrams and pictures. Lists the best species and their geographic distribution. 1953. 52pp. (Available to non-Peace Corps requestors through NTIS.)

R34 Handbook for Building Homes of Earth. (HUD, Office of International Affairs). Techniques of soil mechanics used in building construction are presented in step-by-step processes. Kinds of soils, what to expect of them, and types of earth construction are analyzed to aid in adaptation to local climate and use of available materials. 159pp. (Available to non-Peace Corps requestors through NTIS.)

R35 How to Make Tools. (Peace Corps). A manual for making rudimentary tools from locally available materials. Tools include saws, hammers, screwdrivers and weights. Also included is a section on working with tin. 1980. 51pp. (Not currently available for sale to the general public.)

R36 Remote Areas Development Manual. (Community Development Counselling Service, Inc.). A useful guide to assessing community needs and developing self-help projects to meet those needs. Many designs for equipment. Useful techniques for homecrafts (e.g. candlemaking, dyeing, etc.). Special emphasis on agronomy , horticulture, animal husbandry and home industries. Covers most of the subjects in VITA's Village Technology Handbook. 1964. 546pp. (Not currently available for sale to the general public.)

R37 Primary School Arts and Crafts. (Peace Corps). A step-by-step lesson plan manual for primary school teachers with little or no training in arts and crafts. Designed to help children develop creativity and manual dexterity. 1969. 137pp. (Not currently available for sale for the general public.)

R38 A Manual on Soil and Water Conservation. (U.S. Department of Agriculture, Soil Conservation Service, Agriculture Handbook, No.61). A basic handbook for professional agricultural workers, covering soil erosion, land capability, terracing, stripcropping pasture and rangeland improvement, irrigation techniques, farm drainage, and other related areas. Contains many photographs and illustrations. 1954. 208pp. Free.

R39 Homemaking Handbook. (USDA Extension Service; AID). Contains information on how to organize a community-level home extension program with reference to various teaching methods and aids. Subject areas include nutrition, child care, health and housekeeping. 1971. 237pp. (Not currently available for sale to the general public.)

R40 Rice Production. (PC/Sierra Leone). A step-by-step training manual describing irrigated rice production in Sierra Leone. Developed for PCVs without formal training in agriculture. Provides simplified technical explanations on seed selection, fertilizers, pesticides and harvesting. 1980. 107pp. (Not currently available for sale to the general public.)

R41 A Complete Handbook on Backyard and Commercial Rabbit Production. (CARE/Philippines). Covers all aspects of rabbit raising, with particular attention to the environmental conditions of tropical climates. Techniques for use of by-products such as manure and hides and meat recipes are also included. Contains many illustrations and photographs. 93pp. Free.

R44A Systematic Project Design: A Handbook for Volunteers. (Center for Educational Development in Health, Boston, Massachusetts). This guidebook describes the steps and procedures in planning, implementing and evaluating projects. 1980. 174pp. Free.

R44B Also available in Spanish: Diseno Sistematico De Proyectos: Manual Para Voluntarios. Discribes how to plan, implement, and evaluate health projects, with easy to follow methodology and a selective bibliography of how-to manuals in social service program areas. Provides outlines of useful forms and checklists. The health project design format presented could also be used with other types of projects.

R45 Volunteer Notes on Reforestation (formerly Niger Forestry Conference) Compiled by Steve Seedfeldt. Covers the 1978 Peace Corps Forestry Conference in Niamey, Niger, and reproduces serveral reports of forestry volunteers who worked in Niger, Chad, and Upper Volta. Also includes selected reports prepared for the 1977 Niger conference. 1979. Free.

R46 Vocational Education Manual (Peace Corps/Tunisia). By Howard Opper. Based on the Peace Corps/Tunisia Vocational Education Program, with specifics on the preparation of Volunteers for their assignments. Though based on the Tuniaian effort, it may be useful for other countries with technical school programs and for those creating new programs or redirecting existing ones. Covers teaching skills; school procedures; programs for metals, wood-working, plumbing-heating; and auto mechanics. References to French terms. 1979. 230pp. Free.

R47 Grazing and Rangeland Development for Livestock Production (Agriculture Technology for Developing Countries). (AID). Three technical papers from AID's Agriculture Technology for Development series, covering basic rangeland management leucaena leucocephala as livestock feed and combined crop/livestock farming systems in the tropics and subtropics. Illustrated with charts, maps, and photographs. Lists sources of seed for tropical legumes.

TRAINING SERIES

All titles in the Training Series are available free of charge to Peace Corps Volunteers, staff, host country counterparts, university libraries, and development agencies. Many ICE Training Materials are available for sale to others outside of the Peace Corps community, as indicated for each title. Distributors' addresses are listed on the last page.

Core Curriculum

TR03 In-Service Workshop Model: Development Work, Volunteer Service and Project Review, Core Curriculum Resource Materials, prepared by Dan Edwards. Comprehensive module for five-day conference. Design has logical sequence and stresses critical first day of workshop. Requires experienced facilitator and careful preplanning. All sessions focus on problem solving. Participation of field staff is expected. (Available to PC staff and trainers, and to Volunteers conducting training programs.) PC/OTPS 55pp. Free.

TR04 Close-of-Service Workshop: Trainers Guidelines and Workshop Materials, Core Curriculum Resource Materials, prepared by Bo Razak. Field-tested program for three-day workshop scheduled two to three months prior to termination date. Highly structured; many lessons and exercises are interdependent. Concerned with review of the Volunteer experience, appropriate leavetaking and closure, resume writing and career planning and issues concerning re-entry to the U.S. (Available to PC staff and trainers and to Volunteers conducting training programs.) PC/OTPS 172pp. Free.

TR05 Third World Women: Understanding Their Role In Development. A Training Resource Manual, Core Curriculum Resource Materials, prepared by Evangelina Holvino & Dan Edwards. Highlights issues of Third World Women in PC development projects; intended for both male and female PCVs in all programs. Focus is on the impact of development on women in the context of local cultural setting. Training sessions are sequential, whether given as a block or integrated throughout a pre-service training program. Contains five sessions. Requires experienced trainer. (Available to PC staff and trainers and to Volunteers conducting training programs.) 1981 PC/OTPS

TR06 The Role of the Volunteer in Development, Core Curriculum Resource Materials, prepared by Dan Edwards & Jim McCaffery.

Contains ten structured training sessions for a total of 27 hours and 45 minutes of sequential session designs. Intended for a comprehensive, integrated pre-service training program. Sessions cover assumptions in development work, problem analysis, dealing with information, volunteer work styles, helping skills, problem solving, project management, and planning and community entry. Six sessions to be interspersed in first six to eight works of training; four sessions to be given in a block at the end of training in a "development work conference." Requires experienced trainer. (Available to PC staff and trainers, and to Volunteers conducting training programs.) 1981 PC/OTPS 128pp. Free.

TR07 Cross-Cultural Training for PCVs, Core Curriculum Resource materials, prepared by Dan Edwards & Jim McCaffery. Contains eleven structured training sessions for a total of 20 hours of sequential session designs. Intended for a comprehensive, integrated pre-service training program. Sessions approach cross-cultural training from a skill-training as opposed to information based approach to cross-cultural training. Materials cover transition from U.S. to country of assignment, entry and fluency skills, communication skills, and information gathering and resource skills. Materials are integrated with other Core Curriculum manuals and follow-up staging models. Requires experienced trainer. (Available to PC staff and trainers and, to Volunteers conducting training programs.) PC/OTPS 128pp. Free.

CASE STUDIES SERIES

This new series is designed to help document Peace Corps' programming experience in specific project areas. The Case Studies provide historical badkground of special interest to Peace Corps programmers designing new projects in these fields.

All titles are available free of charge to Peace Corps Volunteers, staff, host country counterparts, university libraries, and development agencies. Many ICE Case Studies are available for sale to others outside of the Peace Corps community, as indicated for each title. Distributors' addresses are listed on the last page.

Case Study
Number

CS1 Marine Fisheries Case Studies. Developed as a guide for programmers interested in setting up marine fisheries projects. Outlines all past marine fisheries projects initiated by Peace Corps, examines five country programs in depth (Chile, El Salvador, the Philippines, Togo and Western Samoa), and identifies general criteria for the success of future marine fisheries programming. 1981. 122pp. (Not currently available for sale to the general public.)

CS2 Peace Corps in Special Education and Rehabilitation. Discusses factors influencing the success of special education/rehabilitation programs and suggests models for future efforts. Includes country reviews of programs in Brazil, Colombia, Costa Rica, Ghana, Jamaica, the Philippines and the Seychelles, as well as one-page overviews of special education/rehabilitation activities in all Peace Corps countries, past and present. Also provides alternative programming considerations. 1981. 167pp. (Not currently available for sale to the general public.)

CS3 Forestry Case Studies. Historical evaluations of eight forestry programs in Morocco, Nepal, the Philippines, Chile, Guatemala, Chad, Liberia and Niger. Includes programming suggestions based on these studies and a list of forestry projects in other Peace Corps countries. 1981. 93pp. (Not currently available for sale to the general public.)

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SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will stand in recess until 1:30 this afternoon at which time we will hear from public witnesses.

[Whereupon, at 10:45 a.m., Tuesday, March 20, the subcommittee was recessed, to reconvene at 1:30 p.m., the same day.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MARCH 20, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 1:40 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

NONDEPARTMENTAL WITNESSES

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

Today, the subcommittee will hear from public witnesses who requested the opportunity to present their views on the fiscal year 1984 supplemental and the fiscal year 1985 budget request.

First of all, I would like to welcome all of you here on behalf of the subcommittee. Again this year, we have had quite a turnout, a lot of interest, and a large number of witnesses who are going to appear before us this afternoon.

As a result, it is going to be necessary to limit the amount of time for each witness. So we are going to ask that you summarize your statements. It is important to keep in mind that the entire statement will be inserted in the record.

We are going to use the light system, and allocate 10 minutes to everyone's statement. If you are able to use less, it would be appreciated, we might have more time for questions.

Our first witness is from Wisconsin. We are happy that you are here. Dr. Leo Walsh will testify on behalf of the National Association of State Universities and Land Grant Colleges.

Dr. Walsh.

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

STATEMENT OF DR. LEO WALSH, NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

INTERNATIONAL AGRICULTURE DEVELOPMENT PROGRAM

Dr. WALSH. Thank you very much, Senator Kasten, for allowing me to make a few remarks about the International Agriculture Development Program.

Over the years, American universities have taken a wide variety of development activities. Today, I would like to focus on three: training, research, and strengthening educational institutions. I will discuss these as they relate to two matters under consideration by this committee, The Central America Democracy, Peace and Development Initiative Act of 1984, and support of the International Agricultural Research Centers.

CENTRAL AMERICAN INITIATIVE

The Central American Initiative holds the promise of significantly improving the welfare of our close southern neighbors. In its transmittal letter, President Reagan lists agricultural development first among all of the areas that the act is intended to affect.

At present, half of the labor force in that region works with agriculture, and almost 70 percent of the region's foreign exchange is generated by agriculture. Paradoxically, the objectives of the act may go unfulfilled because development assistance funds for the agricultural sector are actually shrinking instead of increasing.

In fiscal 1983, $94 million was allocated to agriculture, rural development, and nutrition in Central America. In fiscal 1985, that allocation has fallen to only $70 million, a 25-percent decrease. I urge the committee to examine the situation carefully and ensure that funding levels are commensurate with the overwhelming need for agricultural development in this region.

One of the most important, long-term investments in agricultural development is the training of agricultural scientists and educators. The 10,000 scholarships provided by the act should substantially increase the level of agricultural expertise in Central America.

Fortunately, U.S. AID has had a long and successful record in managing international education programs. AID's Office of International Training should play the key role in assuring that uniform policies apply to student selection, that placement is in appropriate institutions, and that equitable support and services are provided for students while they are in the United States.

While Central America will surely benefit from the scholarships for students in the United States, the long-run development of the area also depends in part on the growth of its own educational institutions. Central America must develop the capacity to train its own scientists, its own administrators, and its own policymakers.

U.S. universities are proud of their history in helping sister institutions in developing nations. In Wisconsin, for example, we highly value the work that we have performed with the universities in Brazil, in Nigeria, and in Indonesia. The institutional links we have formed in those countries work toward a common goal that indeed is durable. I urge you to make the fullest use of these institutional strengthening activities under the Central America Democracy, Peace, and Development Initiative Act of 1984.

INTERNATIONAL AGRICULTURAL RESEARCH CENTERS

Now, I would like to turn to the International Agricultural Research Centers. I strongly favor continuing support for these centers, but I am concerned because past increases for the centers do not represent a real net increase in U.S. support for international agricultural research. Rather, additional funding for the centers comes in part at the expense of decreased funding for research managed by AID's Science and Technology Bureau.

Therefore, I strongly support BIFAD's recommendation for the U.S. commitment to provide 25 percent of core support to the center system be explicitly recognized as an agency-wide commitment and that funds for it should be taken off the top of the Section 103 functional account prior to consideration of the amount to be allocated among the bureaus.

Technical and management responsibility, however, should continue to be led by the Science and Technology Bureau of USAID.

As is well known, the international centers have made tremendous contributions to Third World development through such activities as their improvement of wheat and rice. However, similar advances are nowhere in sight in millet, sorghum, and cassava, the main subsistence foods of the world's poorest people. Thus, the green revolution has bypassed Africa, so our research efforts in that part of the world must be greatly increased.

AMERICAN LAND GRANT UNIVERSITIES

American Land Grant Universities are a major resource that has not yet been fully exploited in international agricultural research. Even worse, they are a resource that may be used less and less in the future because of the continual decline in support that has occurred. There has also been a continual decline in fellowships for American graduate students wishing to study international agriculture.

Therefore, I strongly support BIFAD's recommendation for the University-International Center Cooperative Program and urge AID to provide funding for it as a high priority activity. The cooperative program would focus on research needed by the centers but which they do not have the capacity to conduct themselves. This cooperative program is one mechanism to bring U.S. research-university capabilities to bear on agricultural development.

In Wisconsin, we are also exploring other possibilities. For example, in an effort to make our expertise in biotechnology available to developing nations, we have formed a faculty working group with that objective. In addition, we have joined with Cornell and the University of California at Davis to try to fund a workshop with our faculties and Third World scientists to develop a research agenda and a plan of action for biotechnology research for developing countries. Furthermore, a university industry linkage to LDC agriculture is a clear possibility.

The encouragement by USAID of such U.S. research university efforts would be a highly desirable complement to increased funding for the international centers. The two sets of research activities ought not to be in competition nor seen as substitutes, but rather they should be jointly nurtured to meet the enormous research challenges that face agriculture in the developing nations.

Thank you.

[The prepared statement of Dr. Walsh follows:]

PREPARED STATEMENT OF LEO M. WALSH
DEAN, COLLEGE OF AGRICULTURAL AND LIFE SCIENCES
UNIVERSITY OF WISCONSIN-MADISON

American universities have been involved in international economic development since the Post World War II reconstruction period. As development efforts shifted to Latin America, Asia, and Africa, with their predominantly agrarian economies, America's Land Grant institutions played an increasingly important role. The contributions of U.S. universities in the area of food and nutrition were enhanced through passage of Title XII of the Foreign Assistance Act in 1975.

Over the years American universities have undertaken a wide variety of development activities. Today I would like to focus on three: training, research, and strengthening educational institutions. I will discuss these as they relate to two matters under consideration by this subcommittee: The Central American Democracy, Peace and Development Initiative Act of 1984; and support of the International Agricultural Research Centers.

The Central American Democracy, Peace and Development Initiative Act of 1984 holds the promise of significantly improving the welfare of our closest southern neighbors. In his transmittal letter, President Reagan lists agricultural development first among all the areas that the Act is intended to affect. Title II of the Act discusses seven such areas, with agriculture again at the head of the list. This emphasis on agriculture is consistent with the widely held view that agriculture will be the most important engine of growth in these economies and that assistance to agriculture is the most direct means of helping the largest number of people. At present half the labor force in the region works in agriculture and almost 70 percent of the region's foreign exchange is generated by agriculture.

Paradoxically, the objectives of the Act may go unfulfilled because development assistance funds for the agricultural sector are actually shrinking instead of increasing. In fiscal year 1983, $94 million were allocated to agriculture, rural development and nutrition in Central America. In fiscal 1985 that allocation has fallen to only $70 million, a decline of 25 percent. I urge the subcommittee to examine this situation carefully and ensure that funding levels are commensurate with the overwhelming importance of agriculture in Central American development.

One of the most important long-run investments in agricultural development is the training of agricultural scientists, extension specialists, cooperative managers, and agricultural policy analysts. The 10,000 scholarships provided by the Act should substantially increase the level of agricultural expertise in Central America. However, careful targeting of those scholarships is essential. The Act focuses on the need to help disadvantaged segments of the population. At the same time the scholarships must take full advantage of well-qualified individuals who will return home after training and make important contributions to their countries.

Careful targeting is also important in the U.S. First, priority should be given to graduate degree education. Central America has the capacity to provide substantial undergraduate training itself, but its graduate training capacity is far more limited. Furthermore, undergraduate performance provides important additional evidence on which to base selection for scholarship awards. Of course some undergraduate training in the U.S. is also appropriate, as is short-course training. But, the latter must not be seen as a substitute for degree programs. Short courses play an important role in providing mid-career personnel with up-to-date knowledge in a specific area. Furthermore, several universities, such as my own, have the ability to conduct short courses in Spanish, as we have done in the past.

Fortunately USAID has a long, successful record in carefully managing international education programs. AID's Office of International Training should play the key role in assuring that uniform policies apply to student selection, that placement is in appropriate institutions, and that equitable support and services are provided for students while in the U.S.

While Central America will surely benefit from the Act's 10,000 scholarships for study in the U.S., the long-run development of the area also depends in part on growth of its own educational institutions. Central America must develop the capacity to train its own scientists, administrators, and policy makers. U.S. universities are proud of their history of helping sister institutions in developing nations. At the University of Wisconsin, we value highly our work with the University of Rio Grande do Sul in Brazil, which began in 1964; the University of Ife in Nigeria; and continuing to the present, the Institut Pertanian Bogor (Bogor Agricultural University) in Indonesia. The institutional links formed after 5 to 10 years of working together toward a common goal are indeed durable. The end result in the developing country is a greatly enhanced training and research capacity. The end result in the U.S. is a faculty group that is informed, experienced, and concerned about development in the recipient country. I urge you to make the fullest possible use of these institution strengthening activities under the Central American Democracy, Peace and Development Initiative Act of 1984.

I would now like to turn to the International Agricultural Research Centers. I favor continued support for these centers at increasing levels of funding. However, I am concerned because these increases do not represent net real increases in U.S. support for international agricultural research. Rather, additional funding for the Centers comes, in part, at the expense of decreased funding for research managed by AID's Science and Technology Bureau. Therefore I strongly support BIFAD's recommendation that the U.S. commitment to provide 25 percent of core support to the Center system be explicitly recognized as an Agency-wide commitment and that funds for it should be taken off the top of the Section 103 functional account, prior to consideration of the amount to be allocated among bureaus in the ABS process. Technical and management responsibility, however, should continue to be led by the S&T Bureau.

As is well known, the International Centers have made tremendous contributions to Third World development, through improvement primarily of wheat and rice, and secondarily of maize. However, this represents only the start of the contribution that research must make. Advances such as those in the aforementioned three grain crops are nowhere in sight for millet, sorghum, and cassava, the main subsistence foods of the world's poorest populations. Today, while many of us fear for the future of Africa, and while some are tempted to focus primarily on that continent's internal policies and politics, it behooves us to note that millet, sorghum, and cassava are Africa's most important food crops. Rice and wheat are insignificant by comparison. Thus, the Green Revolution has bypassed Africa. Our research efforts in that part of the world must be greatly increased.

American Land Grant universities are a major resource that has not yet been fully exploited for international agricultural research. Even worse, they are a resource that may be used less and less in the future. The erosion in research managed by AID's Science and Technology Bureau I have just mentioned is largely research conducted by U.S. universities. Furthermore, there is a continual decline in fellowships or other support for American graduate students wishing to study international agriculture. If faculty are frustrated in their efforts to contribute to Third World agricultural research and if graduate students are turned away for lack of funding, the outcome is clear. Therefore, I strongly support BIFAD's recommendation for the

University-International Center Cooperative Program and urge AID to provide funding for it as a high priority activity. The cooperative program would focus on research needed by the Centers but which they do not have the capacity to conduct themselves. Projects might involve graduate students, postdoctoral fellows, faculties, and scientist exchanges.

This cooperative program is one mechanism to bring U.S. university research capabilities to bear on agricultural development. At Wisconsin we are also exploring other possibilities. For example, in an effort to make our expertise in biotechnology available to developing countries we have formed a faculty working group with that objective. In addition, we have joined with Cornell and the University of California at Davis to try to fund a workshop with our faculties and Third World scientists to develop a research agenda and plan of action for biotechnology research for developing countries. Furthermore, since our faculty and those at other schools are already working with private biotechnology firms, a university/industry linkage to aid LDC agriculture is a clear possiblity.

The encouragement by USAID of such U.S. university research efforts would be a highly desirable complement to increased funding for the International Centers. The two sets of research activities ought not to be in competition nor seen as substitutes, but rather should be jointly nurtured to meet the enormous research challenges that face agriculture in developing countries.

TARGETING SCHOLARSHIPS

Senator Kasten. Dr. Walsh, thank you very much.

On page 2 of your statement, you talk about the 10,000 scholarships provided by the act, and that that should increase the expertise. I wonder if you could describe for the subcommittee the targeting of those scholarships and the concern that you have that they go into areas where you think they would be most efficient.

Dr. Walsh. It is clear that careful targeting is needed. We have to take into account the needs of the nations that we are helping to support in terms of their agricultural scientists, their extension specialists, their cooperative managers.

It depends somewhat on the needs of the country Senator Kasten, but I would agree that we do need to target the efforts in this area because there is a far greater need than simply 10,000 scholarships. We could probably fund 100,000 in terms of total need.

Senator KASTEN. You state: "Scholarships must take full advantage of well qualified individuals who will return home after training."

Dr. WALSH. Yes.

Senator KASTEN. What do you mean?

Dr. WALSH. What am I driving at?

Senator KASTEN. Yes. Are you suggesting that they return home rather than stay here?

Dr. WALSH. Yes.

Senator KASTEN. One of the problems we have with education programs overall is that often they don't have a vested interest in their country, and they will come here and stay, but I am not sure that that is what you are trying to get at.

Dr. WALSH. That is what I am trying to get at.

First, we need to clearly identify those people who have the intellectual capability and have the capacity to provide leadership in their own countries when their training is completed. Second, we have to identify people who are committed to go back to those nations.

I would agree that in the past we have had some that have been supported on various and sundry programs who have attempted to stay in the United States, and this has been counterproductive. We should work out arrangements by which we have pretty clear assurance that they are going to return.

UNIVERSITY RELATIONSHIPS WITH AID

Senator KASTEN. A few years ago the committee received a number of complaints from universities about their relationship with AID. There just seemed to be a lot of rough edges, I guess, and maybe some matters of disagreement. Frankly, we have not had those kinds of comments and complaints from the universities within the last year or so.

You are nodding, so I guess you are familiar with the issues raised by the university community. Does this mean that now, other than the dollar levels, which I am sure we are always going to be competing for and working to increase, you are basically happy with the relationship and the way things are working with AID?

Dr. WALSH. Yes; I would say that there has been a considerable improvement in the last 3 to 4 years. I do feel that the administrative relationships and the other relationships that we need to have with AID have improved to the point where I don't believe that that is a serious problem any longer. I think the primary concern we have is one of inadequate financial support.

Senator KASTEN. There may be other members of the subcommittee, who are unable to be with us today, who might have some questions.

I appreciate your being here. I look forward to continuing to work with you and others, and I want to thank you for your work over the past year or so. I am particularly pleased to have you here today.

Dr. WALSH. It was a pleasure to be here. It was the right time to leave Wisconsin if you listened to the weatherman.

Senator KASTEN. That is what I have been told. [Laughter.]

Our next witness is Mr. David Sadd, representing the Natio Association of Arab Americans.

Mr. Sadd.

NATIONAL ASSOCIATION OF ARAB AMERICANS

STATEMENT OF DAVID J. SADD, NATIONAL ASSOCIATION OF ARAB AMERICANS

U.S. AID TO MIDDLE EAST

Mr. SADD. Mr. Chairman, the National Association of Arab Americans is pleased to present testimony before the Senate Committee. As the principal political organization representing the 3 million Americans of Arab ancestry, as well as a large and growing number of other Americans who share our viewpoint, the NAAA and its members are deeply concerned at American tax dollars being spent in such a way as to promote U.S. interest in the Middle East.

American military and economic aid can and must be used to encourage peace and stability in the region, and contribute to the security and economic development of America's many friends in the Middle East. A prudent, balanced American foreign aid package can demonstrate the American commitment to those goals, and at the same time aid reductions or augmentations can send a signal that policies of the recipient countries meet with approval or disapproval by the U.S. Government.

We consider President Reagan's 1985 foreign aid proposals, at least insofar as they pertain to Arab countries to be, on the whole, a positive approach toward encouraging economic development and promoting the military security of America's friends in the region. Nevertheless, the NAAA is gravely concerned that the disproportionate share of the total foreign aid package that is devoted to Israel will not encourage stability and peace in the Middle East. It certainly has not done so in the past.

The past year has seen a dramatic increase in the dangers facing the United States in the Middle East. We have been profoundly anguished, as have all Americans, by the tragic death of more than 250 of our peacekeeping soldiers in Lebanon. In large measure, the dangerous situation prevailing in Lebanon, and certainly the extent of American involvement there can be traced directly to the Israeli invasion in June of 1982, which precipitated the current crisis.

It is our belief, Mr. Chairman, that had the United States reduced, rather than raised, aid levels to Israel following the Israeli invasion of Lebanon as a sign of American displeasure for the invasion and siege of West Beirut, many of the problems facing the United States today in

Lebanon might well have been avoided. Indeed, rising U.S. aid levels to Israel have been seen, rightly or wrongly, by many people in the Arab world and elsewhere as a sign of American acceptance, or even complicity in the invasion.

American foreign aid to all nations, including to Israel, should be contingent upon behavior which is compatible with America's national interests. The United States has traditionally not hesitated to withhold aid to foreign nations that have pursued policies which are either incompatible with our national interests, disruptive of our foreign policy, or in violation of the high ideals that our Nation and people hold most dear. Israel must be held to the same standards to which we require all other countries to adhere.

SPECIFIC FOREIGN AID PROPOSALS

I would like now to comment on several of the specific proposals in the foreign aid request, and make recommendations concerning those.

With respect to Jordan, Jordan remains one of America's staunchest and most reliable friends in the Middle East. We support the administration's proposals to extend $95 million in foreign military sales credits in fiscal year 1985. This sum represents a $20 million reduction in FMS in Jordan, compared to the previous year, but the reduction is offset by the decision, which we endorse, to extend the aid in the form of grants. We also support the administration's recommendation to continue economic support fund aid to Jordan at the rate of $20 million. We urge, however, that the ESF aid be given entirely in the form of grants as is Israel's.

With respect to the West Bank and Gaza, we note the administration's recommendation to continue the trend in recent years toward modest increases in American aid to the occupied West Bank and Gaza. This year, it has been proposed to funnel $9 million through private voluntary organizations into a variety of projects. This represents a modest increase in aid of $500,000 over the estimated fiscal year 1984 figure of $8.5 million, but it remains inadequate to meet the needs of the Palestinians for developmental assistance.

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project anywhere in the world. We urge that the funding for the West Bank and Gaza be increased dramatically for fiscal year 1985, and we urge Congress and the administration to put increasing pressure upon Israel not to put obstacles in the way of economic development programs that the Arab people of the West Bank and Gaza need and deserve.

With respect to Egypt, we support the administration's proposals for economic and military aid to Egypt. Indeed, we point to that kind of aid package and, more important, the uses to which it is put by the recipient, as a model of what a foreign aid relationship should be.

Unlike Israel, Egypt has not created the need for more American aid by lavish, irresponsible, or aggressive use of previous American aid.

Egypt scrupulously abides by the guidelines we stipulate as conditions of the aid that we give it.

With respect to Lebanon, the administration's request for $20 million in economic support funds and $15 million for foreign military sales aid to Lebanon, all in the form of grants, is a significant reduction in aid from the $150 million fiscal year 1983–84 supplement request. Although we support the administration's proposal, it is clear that the administration's request represents only a beginning in meeting the needs that Lebanon will have to face in order to recover from its ordeal.

With respect to Israel, we oppose the disproportionate amount of aid that is being given to Israel. Giving $2.25 billion in military and economic aid to a nation of only 4 million people is viewed by some critics as not only disproportionate but irresponsible, especially when the U.S. budget deficit is reaching astronomical proportions.

Even though Israel enjoys the highest per capita GNP of any country in the Near-East region covered by the administration's foreign aid proposals, it nevertheless receives a higher amount of aid than any other recipient nation. Given Israel's status as the fourth strongest military power in the world, and its military preponderance in the region, the amount of aid earmarked for Israel is exorbitant and unwarranted.

We are opposed also to the decision of Congress in 1983 to allow Israel to use its FMS credits to purchase goods and services in Israel for use in the development of a new fighter aircraft, the Lavi. We concur with the U.S. General Accounting Office, which stated in June 1983 that the FMS program was intended for purchase of goods and services in the United States to support U.S. firms.

Allowing Israel to use FMS credits in Israel will subsidize Israeli industries and help give the Lavi, which will be in direct competition with U.S.-made aircraft, an unfair competitive advantage and cost thousands of Americans their jobs.

RECOMMENDATIONS FOR REDUCED AID TO ISRAEL

Beyond the general consideration of the exorbitancy of aid to Israel, we would like to enumerate two specific recommendations for reduction of U.S. aid to Israel:

1. Israel continues to occupy significant portions of Lebanese territory. Aid to Israel should be reduced by the amount of money spent annually to keep Israeli troops in occupation of Lebanese soil. Such a reduction could amount to as much as $350 million annually.

2. Israel continues to subsidize massive settlement activity in the Arab territories, including East Jerusalem, that it occupied in 1967. Successive U.S. administrations have refused to recognize the legality of the settlements in the occupied territories, and President Reagan himself has in the past called for a moratorium on additional settlement activity. U.S. aid to Israel should be reduced by the amount—at least $300 million—spent to further Israeli settlement activity.

In closing, I would like to emphasize that NAAA's continuing primary concern is for the protection and enhancement of America's interests in the Middle East. As we look to the future, we urge that Congress link the award of American foreign aid to the political responsiveness of the recipient country, and assure that recipient countries know that their aid will be reduced if their actions endanger U.S. national interests or violate U.S. laws.

If the United States is truly to be a force for peace and stability in the Middle East, then our foreign aid program and our policies with respect to the Middle East must demonstrate that America is as concerned with the safety, aspirations, and well-being of the Arab people as America is concerned about the safety, aspirations, and well-being of Israel.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sadd follows:]

NAAA
National Association of Arab Americans

PREPARED STATEMENT OF DAVID J. SADD

EXECUTIVE DIRECTOR

The National Association of Arab Americans is pleased to present testimony concerning the Middle East portion of the Administration's 1985 foreign aid request. As the principal political organization representing the 3 million Americans of Arab ancestry, as well as a large and growing number of other Americans who share our viewpoint, the National Association of Arab Americans and its members are deeply concerned that American tax dollars be spent in such a way as to promote U.S. interests in the Middle East most effectively.

American military and economic aid can and must be used to encourage peace and stability in the region and contribute to the security and economic development of America's many friends in the Middle East. A prudent, balanced American foreign aid package can demonstrate the American commitment to those goals. At the same time, aid reductions or augmentations can send a signal that policies of the recipient countries meet with approval or disapproval by the U.S. government.

We consider President Reagan's 1985 foreign aid proposals, at least insofar as they pertain to Arab countries, to be, on the whole, a positive approach towards encouraging economic development and promoting the military security of America's friends in the region. With some exceptions, which will be enumerated later, we believe that both the levels and mix of aid to those countries are appropriate, given the severe budgetary constraints which must be applied to the overall aid package.

Nevertheless, the National Association of Arab Americans is gravely concerned that the disproportionate share of the total foreign aid package that is devoted to Israel will not encourage stability and peace in the Middle East. It certainly has not done so in the past. We are convinced that, in light of the continued Israeli occupation of neighboring Lebanon, its obstinate refusal to cease its inexorable settlement of the Arab territories occupied in 1967, and its complete and irrevocable rejection of President Reagan's Middle East initiative, lavishing billions of dollars of aid on a nation of only four million people goes far beyond the amount of money that can be reasonably justified.

Historical Overview

The past year has seen a dramatic increase in the dangers facing the United States in the Middle East. We have been profoundly anguished, as have all Americans, by the tragic deaths of more than 250 of our peacekeeping soldiers in Lebanon. We are deeply saddened by the continued fighting that has prevented national reconciliation in Lebanon. And we are deeply concerned that direct American involvement in Lebanon in what clearly became a partisan military role, particularly after the massive bombardment of the hills surrounding Beirut, has brought in its wake the danger of compromising America's unique position as the only nation capable of acting in the role of mediator in the overall Arab-Israeli conflict.

In large, and perhaps decisive measure, the dangerous situation prevailing in Lebanon today, and certainly the extent of American involvement there can be traced directly to the Israeli invasion in June of 1982, which precipitated the current crisis in Lebanon. The Israeli invasion totally destabilized an already disturbed and vulnerable Lebanese society, left nearly twenty thousand Lebanese and Palestinians dead--most of them civilians--and torpedoed the beginnings of promising talks on national reconciliation that had been taking place. It led inexorably to the deployment of the multinational force (MNF) in Lebanon as well. Some months after the arrival of American and other MNF troops, Israel precipitously withdrew its occupation forces to more secure positions south of Beirut, leaving the troops of the MNF exposed and vulnerable. Having catalyzed a disastrous chain of events in Lebanon, Israel left it to the United States and the multinational force to pay the price, while it continues to occupy large portions of Lebanese territory.

The American preoccupation with the crisis in Lebanon has sidetracked U.S. efforts to settle the overall Israeli-Palestinian dispute as well, allowing Israel additional time not only to expand its settlement activities in the occupied Arab territories but also to continue to deny the Palestinian people their legitimate rights, including their right to choose their own representatives. The United States must recognize the urgent need for simultaneously addressing both the crisis in Lebanon and the question of Palestinian rights. Consequently, the United States must redouble its efforts to achieve a solution to the Israeli-Palestinian conflict at the same time as it works to resolve the crisis in Lebanon.

When President Reagan introduced his Middle East peace initiative in September 1982, he gave a needed and valuable impetus towards settling the Israeli-Palestinian conflict by emphasizing the rights of the Palestinians. Indeed, on February 23, 1983, President Reagan indicated that we "can't go on with these people in not providing something in the nature of a homeland."

It is our belief, Mr. Chairman, that had the United States reduced, rather than raised, aid levels to Israel following the Israeli invasion of Lebanon, as a sign of American displeasure for the invasion and siege of West Beirut, many of the problems facing the United States today in Lebanon might well have been avoided. By raising fiscal year 1983 grant aid levels in the aftermath of the invasion and increasing total aid levels in fiscal year 1984, the United States has sent signals to both Israel and the Arabs that Israeli policies were exempt from disciplinary action, no matter how offensive or odious they might be. Indeed, rising U.S. aid levels to Israel have been seen--rightly or wrongly--by many in people in the Arab world and elsewhere as a sign of American acceptance of or even complicity in the invasion.

American foreign aid to all nations, including Israel, should be contingent upon behavior which is compatible with America's national interests. The United States has traditionally not hesitated to withhold aid to foreign nations that have pursued policies held to be either incompatible with our national interests, disruptive of our foreign policy, or in violation of the high ideals that our nation and people hold most dear. Israel must be held to the same standards to which we require all other countries to adhere.

The President's Foreign Aid Requests

As has been the case in the last few years, the hallmark of the President's fiscal year 1985 foreign aid request is the preponderance of aid to be extended to Israel and Egypt. Although total aid to each of the two countries will be somewhat lower in fiscal year 1985 than was the case in fiscal year 1984, all of the aid will be given in grants. While the total levels of aid to Egypt and Israel is similar ($2.25 billion for Israel as compared to somewhat less than $2 billion for Egypt), aid to Israel represents a much more generous commitment. Under the terms of the Administration's proposals, Israel, with a population of less than 4 million and an extremely high per capita GNP of $5,160, will receive from the American taxpayer the enormous sum of $568.18 for every Israeli citizen. Egypt, by way of contrast, with a very low per capita GNP of only $650, will receive aid equivalent to $42.03 for every Egyptian. Other friendly Arab countries will receive even less, as illustrated in Table 1:

TABLE 1

U.S. PER CAPITA AID TO SELECTED MIDDLE EASTERN COUNTRIES

	Population	GNP per Capita	Total Proposed FY 1985 Aid	Aid per Capita
Egypt	45,851,000	$ 650 (in 1981)	1,927,000,000	$ 42.03
Israel	3,960,000	$5,160 (in 1981)	2,250,000,000	$568.18
Lebanon	2,598,000	$1,070 (in 1975--pre war)	35,800,000	$ 13.78
Jordan	3,420,000	$1,620 (in 1981)	117,000,000	$ 34.21

I would now like to comment on several of the specific proposals in the foreign aid request and make recommendations concerning them:

1. Jordan

Jordan remains, despite some policy differences with the United States, one of America's staunchest and most reliable friends in the Middle East, as King Hussein's February visit to Washington has underscored once again. Jordan is also an indispensable actor in any efforts to secure a just and lasting peace in the Middle East.

We support the Administration's proposals to extend $95 million in foreign military sales (FMS) credits in fiscal year 1985, even though we regret that this sum represents a $20 million reduction in FMS aid to Jordan compared to the previous fiscal year. We also support the Administration's recommendation to continue ESF aid to Jordan at the rate of $20 million. We urge, however, that the entire amount of FMS and ESF aid be given in the form of grants.

The Administration has given Congress formal notice that it plans to sell certain military equipment, including Stinger antiaircraft missiles, to Jordan this year. Although the sale is not part of the foreign aid requests currently under consideration by this subcommittee, it nevertheless represents a positive step by the Administration towards meeting Jordan's important defense needs, and should be given favorable consideration by the Congress. In this connection, I would recommend an important study by Anthony Cordesman on Jordan's military forces. Jordanian Arms and the Middle East Balance, published in 1983 by the highly respected Washington-based Middle East Institute, provides an invaluable analysis of Jordan's defense needs within the context of the overall situation in the Middle East.

2. West Bank/Gaza

We note the Administration's recommendation to continue the trend in recent years towards modest increases in American aid to the occupied West Bank and Gaza. This year, it has been proposed to funnel $9 million through private and voluntary organizations (PVOs) into a variety of projects. This represents a modest increase in aid of half a million dollars over the estimated fiscal year 1984 figure of $8.5 million, but it remains inadequate to meet the needs of the Palestinians for developmental assistance.

The small program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid project anywhere in the world. The Agency for International Development, in its recently published congressional presentation on foreign aid, praised the projects undertaken by the PVOs as being "well designed and implemented", and revealed that a substantial demand for assistance exists which is "not being met from other sources," as indicated by the large number of projects proposed by local institutions which have to be rejected or deferred by PVOs because of funding limitations.

As in several previous years, AID has emphasized that the private and voluntary organizations "continue to encounter difficulties in obtaining clearance from the Israeli Government to proceed with individual sub-projects, particularly those of a developmental nature." This is a serious allegation, which appears year after year in the AID presentation, yet appears to be ignored.

We urge that funding for the West Bank and Gaza be increased dramatically for fiscal year 1985 and we urge Congress and the Administration to put increasing pressure upon Israel not to put intolerable obstacles in the way of economic development programs that the Arab people of the West Bank and Gaza need and deserve. This is particularly necessary in light of the Israeli government's policy of subsidizing Jewish colonization of the occupied territories.

We continue to be gravely concerned that Israeli settlement policies in the West Bank and Gaza are severely undermining the chances for a peaceful settlement of the Israeli-Palestinian dispute. The inhabitants of the occupied territories, who have suffered under almost seventeen years of Israeli occupation, are subjected to harrassment not only by Israeli officials but, increasingly, to the violence and terrorism of Jewish settlers. Incidents of terrorism against Arabs, including attacks using Israeli Army-type grenades against churches and mosques, have been reported in the American press with alarming frequency, particularly in the last few months. Earlier this year, Arab guards in East Jerusalem foiled an attempt by Jewish terrorists to blow up the holiest Muslim shrine in Jerusalem, the Dome of the Rock. On February 16, The Washington Post cited Israeli radio as saying that people thought to be Jewish settlers had broken into the home of an 84 year old Arab near Tulkarm on the occupied West Bank and chopped off his finger when he would not sign away his land to Israeli buyers. The Israeli government recently released a report by Israeli Deputy Attorney General Yehudit Karp that dealt with the dual system of justice in the occupied territories. The Karp report was withheld from the public for a year because of the damaging revelations which it contains.

3. Egypt

We support the Administration's proposals for economic and military aid to Egypt. Indeed, we point to that kind of aid package and, more important, the uses to which it is put by the recipient, as a model of what a foreign aid relationship should be. Egypt has a massive demographic problem. It needs economic aid to provide relief from and initiate remedy for the genuine deprivations this and other problems create for its economy. Its needs, in other words, are real, and were around before America decided to help with them. Unlike Israel, Egypt has not created the need for more American aid by lavish, irresponsible, or aggressive use of previous American aid. In addition, it scrupulously abides by the guidelines we stipulate as conditions of the aid we give it.

Its abiding by our guidelines and respecting our policy is even more evident in its use of military aid. There can be no doubt that such aid will be used by Egypt strictly for defensive purposes. In short, Egypt abides by the rules.

There are encouraging signs that the Egypt is reestablishing closer ties with many of the other nations of the Arab world after an isolation of several years. Such a development will enable Egypt to play a stronger and more constructive role in the region and should be welcomed by the United States. It should be noted also that endless allegations by Israel that Egypt has somehow violated the terms of its treaty with Israel because it withdrew its ambassador from Tel Aviv as a protest to Israeli actions in Lebanon are baseless. Removing an ambassador is an effective and non-violent means of conveying official displeasure towards reprehensible acts. Israel has only itself to blame for the alienation of Egypt, not only because of its invasion of Lebanon and the actions it has taken there, but also because of its continuing occupation of southern Lebanon, to which Egypt rightly objects.

4. Lebanon

The Administration's request for $20 million in ESF and $15 million in FMS aid to Lebanon is a significant reduction in aid from the $150 million fiscal year 1983-84 supplemental request. Although we support the Administration's proposal, it is clear that the Administration's requests represent only a beginning in meeting the needs that Lebanon will have to face in order to recover from its ordeal. We urge that all aid to Lebanon be given in the form of grants.

Lebanon suffered billions of dollars worth of damage in its long civil war, which pitted elements of Lebanese society against one another and involved foreign forces as well. The Israeli invasion in 1982, which left thousands of Lebanese and Palestinians dead, wounded or dislocated, caused additional billions of dollars of damage in a mere three months. Current fighting is placing added strains on the fabric of Lebanese society and will not only add to the terrible burden that will be faced in future reconstruction, but also delay the beginning of the reconstruction process.

If Lebanon is to recover fully from the devastation that it has suffered and is suffering today, the United States must be willing to maintain high levels of assistance for a considerable period of time. However, since so much of the damage that has been inflicted upon Lebanon through American-supplied weaponry employed by Israel in its invasion, the United States has a moral obligation to provide Lebanon with the largest possible amount of aid--at present for relief, and in the future, after its ordeal is over, for the massive reconstruction and rehabilitation effort that will be necessary to restore Lebanon to health.

5. Israel

We continue to oppose the disproportionate amount of aid that is being given to Israel. Giving $2.25 billion in military and economic grant aid to a nation of only four million people is viewed by some critics as not only disproportionate but irresponsible, especially when the U.S. budget deficit is reaching astronomical proportions. Even though Israel enjoys the highest per capita GNP of any country in the Near East Region covered by the Administration's foreign aid proposals, it nevertheless receives a higher amount of aid than any other recipient nation. It should be noted that the Administration has recommended that economic support fund (ESF) aid for Israel be increased by $100 million in fiscal year 1985 over the levels it recommended last year. Given Israel's status as the fourth strongest military power in the world and its military preponderance in the region, the amount of aid earmarked for Israel is exorbitant and unwarranted.

We are opposed also to the decision of Congress in 1983 to allow Israel to use its FMS credits to purchase goods and services in Israel for use in the development of a new fighter aircraft, the Lavi. We concur with the U.S. General Accounting Office, which stated in a June 1983 report that the FMS program "was intended for purchase of goods and services in the United States to support U.S. firms." Allowing Israel to use FMS credits in Israel will subsidize Israeli industries and help give the Lavi, which will be in direct competition with U.S.-made aircraft, an unfair competitive advantage and cost thousands of Americans their jobs.

Beyond the general consideration of the exorbitancy of aid to Israel, we would like to enumerate three specific recommendations for reduction of U.S. aid to Israel:

1. Despite the enormous amount of death and destruction inflicted upon Lebanon by Israel since June 1982, Israel has somehow managed to avoid all responsibility for Lebanese reconstruction. Israel should pay reparations to the Lebanese government for the damage caused in the invasion. If it refuses to do so, an equivalent amount of American aid should be diverted from Israel to Lebanon. It is certainly time for Israel to take responsibility for the way in which it uses its military preponderance.

2. Israel continues to occupy significant portions of Lebanese territory. Aid to Israel should be reduced by the amount of money spent annually to keep Israeli troops in occupation of Lebanese soil. Such a reduction could amount to as much as $350 million annually.

3. Israel continues to subsidize massive settlement activity in the Arab territories, including East Jerusalem, that it occupied in 1967. Successive U.S. administrations have refused to recognize the legality of

> the settlements in the occupied territories, and President Reagan himself has in the past called for a moratorium on additional settlement activity. U.S. aid to Israel should be reduced annually by the amount--at least $300 million--spent to further Israeli settlement activity.

Our continuing primary concern is for the protection and enhancement of America's interests in the Middle East. Our present partisan policy has resulted in an ever-mounting danger to those interests. We look to the future and consider these minimum proposals as genuinely practical measures that could be used effectively to demonstrate to Israel that specific policies that endanger U.S. national interests or violate U.S. laws will not be tolerated. We urge you, therefore, to consider them in the same spirit with which they are offered.

CONTRIBUTIONS BY MOROCCO

Senator KASTEN. I want to thank you for your statement. One of the countries that you omitted here, which I would like to give you a chance to comment upon, is the contribution of Morocco over the past several months, in particular the work that they did in the Islamic Conference Committee.

Is there any reason that you have omitted any discussion or support of Morocco in your prepared statement?

Mr. SADD. There is no reason why we have omitted support of Morocco's aid package. We certainly do support it. I would say as well that King Hassan of Morocco is the Chairman of the Jerusalem Committee of the Islamic Conference, and obviously quite concerned at large with this issue of Jerusalem presently before the Congress.

STATEMENTS BY KING HUSSEIN

Senator KASTEN. You stated in your outline that Jordan remains, despite some policy differences, one of America's staunchest and reliable friends. I assume that this was written before the King's recent outburst. But do you personally, or do you as an association, the group for which you are speaking, the NAAA, associate yourself with the views of the King of Jordan?

If you don't, could you say specifically where you disagree with him, and specifically where you agree with him.

Mr. SADD. We believe that the recent statements of King Hussein of Jordan are completely well founded. He, in essence, is saying that America is taking a completely one-sided, unbalanced view of the Middle East, favoring Israel to the detriment of him, King Hussein of Jordan, and other Arab countries.

Over the past year, we have seen aid to Israel rise dramatically. Something like the Lavi aircraft is something completely out of the ordinary, a program that would fund jobs for Israelis at the expense of our own. We have seen a strategic cooperation agreement with Israel, interpreted by many of the Arabs as being directed against them. We have seen a free trade zone introduced for Israel.

U.S. EMBASSY MOVE FROM TEL AVIV TO JERUSALEM

On the other hand, when Jordan seeks completely defensive surface-to-air missiles, obviously able to be used only in defense of its own country, it seems a hue and cry from the Congress of the sort which would block that sale. We also see many Congressmen and Senators now endorsing a move which threatens to move the U.S. Embassy from Tel Aviv to Jerusalem, an effort which threatens not only King Hussein, but all of our Arab friends in the Middle East, and is the single-most damaging thing the United States could do with respect to maintaining the friendship of the countries of the Arab world.

Again, I think we have the kind of reaction a friend should give. He is seeing something that is entirely out of bounds, and he is telling us about it.

Senator KASTEN. It is not in the prepared statement, but you, at the conclusion of your statement, stated that our directions ought to be toward helping our friends, and you just said it again.

U.N. VOTING RECORD

Are you familiar with the report which the Congress is now requiring our Ambassador to the United Nations to submit to Congress, outlining the voting record of various countries of the world, and the degree to which they agree with and the degree to which they oppose the policies of the United States. Are you familiar with that report?

Mr. SADD. I am familiar that there is a report, and I would hope that in the future that report would be required to show those votes that were specifically regarding Israel and its Middle East performance, and then the other issues. I would think that you would find a rather marked difference between the vote totals of the different countries.

Senator KASTEN. The report will be available to the public soon. We just got our copy of it today. It is very disappointing when we have comments such as you have given us today. We have heard comments about moderate Arab States, and that there is a difference between the so-called moderates and the so-called radicals.

Then you look at the numbers, and you see that last year Saudi Arabia, which is thought to be one of the leaders of the so-called moderate groups, voted with us less than 20 percent of the time, that Jordan voted with us 17 percent of the time, that Kuwait, which we also think of as a moderate, voted with us 15 percent of the time, and then Iraq was 14, Algeria was 13, South Yemen was 12, Libya was 11, and Syria was 11.

There isn't a heck of a lot of difference between 11 and 14 or 15, and it is an astounding difference when you look at the friends from other parts of the world who are voting with us certainly more than half, and often more than two-thirds of the time, and when you look at Israel which is voting with us over 90 percent of the time. That is one way of trying to figure out who our friends are.

I am not sure that it is necessary for the Arab Group to consistently line up against U.S. policies in the Caribbean, or to line up against U.S. policies in other parts of the world, or to line up against U.S. policies and our concern about UNICEF, or to line up against U.S. policies on a number of issues having nothing to do with the Middle East.

Mr. SADD. I agree.

Senator KASTEN. There just isn't a heck of a lot of evidence that, No. 1, there is a difference between the so-called moderates and the so-called radicals, and there is not a lot of public evidence that we, in fact, have the leadership that you are suggesting might be there.

Mr. SADD. Again, with respect to the U.N. votes, it is impossible to make a determination about the extent to which the Arabs have been supporting us, unless we factor out those votes which specifically had to do with Israel or Middle East issues.

As you know, there are a heck of a lot of U.N. votes that deal with Israel, many, many since 1967, and many lately on Jerusalem. Obviously, the Arabs are going to vote in their own interest, and if we are voting in Israel's interest, if you will, on one of those Middle East issues, it will distort those numbers.

I think that it is going to be necessary, in order to understand those numbers; to understand what issues were voted on exactly.

Senator KASTEN. I am just trying to see if I can dig out exactly what you are saying, because I think that there are a couple of areas where they do have the votes outlined, and we can separate out the Israel votes.

Mr. SADD. That would be it.

Senator KASTEN. Let me suggest to you that just in a quick look here, one of the tests was those countries who have condemned the U.S. action in Grenada, and who refused to condemn the Soviet action in Afghanistan. That is a pretty interesting group of countries. They went on record against us in Grenada, and they went on record in favor of the Soviets in Afghanistan, and on a quick look here there were about maybe 25 or 30 countries, and there are a number of Arab countries that are on that magic list.

Mr. SADD. Are Jordan, Saudi Arabia, or Kuwait on that list, or any of those countries?

Senator KASTEN. The so-called moderates are not on this list that I can see right now.

Mr. SADD. That might be one of the demarcations that you were looking for earlier.

Senator KASTEN. I am just suggesting to you that we have problems in the area, and the Congress is going to be looking at this kind of report for indications.

There have been some of my colleagues, I guess in part because one of them was one of your targets, who have been concerned about the advertising, the radio spots and the billboards, et cetera, which are coming out. I am told—I don't know this—that there was some sort of a campaign in Philadelphia against Senator Specter last year. Is that true or false, because he was not even up for reelection, and that is what I couldn't figure out.

Mr. SADD. Let me make it clear, then, we have not run attacks on any Member of Congress. What we have done is issue advertising. What we wanted to do was to bring the issue of foreign aid out in front of the public.

Senator KASTEN. Why would you be running issue advertising in Philadelphia with Arlen Specter?

I am also told that you are doing the same thing with Congressman Long from Maryland, who is seeking reelection. What is your purpose here? You don't look at that as attack advertising?

Mr. SADD. Not at all.

Senator KASTEN. The question is here in part because my colleagues have looked upon it as that.

Mr. SADD. What we have done is issue advertising, when there is an issue before the Congress. In the case of Congressman Clarence Long, the issue at the time was the continuing resolution and the security assistance package in it. He obviously had a key role to play, and we wanted to bring attention, because it was an ongoing decision in that committee.

Then there was an effort authored by him which we opposed, which is the Lavi funding. We oppose it because it would deprive Americans of jobs. So we specifically mentioned that issue, the Lavi, and mentioned his name in conjunction with it because he was a co-sponsor of it.

Each time we have mentioned a Member's name, it has been in conjunction with issue advertising, because he had a role to play, a key role to play in that issue.

Senator KASTEN. Let me suggest to you, I have not been part of your campaign, but that doesn't mean that I am not going to be on your list at some other time. Right now, the Members who have expressed concern to the subcommittee, don't look at it, No. 1, as being issue advertising and, No. 2, I am not so sure that it helps your case.

I am just looking at votes, and it doesn't seem to me that you have changed anybody's mind. It seems to me that what some Congressmen and some Senators are looking at as attacks, and kind of one-sided attacks, may in fact be hurting you and, frankly, may not be getting you the desired result, which I guess would be to have more votes going your way. That is one person's view, and obviously you are going to run your radio spots the way you choose.

Mr. SADD. I appreciate your comments. Our obvious effort is to bring to the American public the opportunity to have their views known on some of these issues. We are testing and learning. We did some media in Topeka, Kans., as a test, about some of our issues, and we had a 17 to 1 favorable response from viewers who heard our media.

Again, it is a testing and learning process, with the ultimate objective of getting a full and fair discussion of Middle East issues out in the grassroots of America, ultimately so that the Members of Congress can hear from their members their views now that they have been exposed to some education on the issues. We designed this, hopefully, as a help for you.

Senator KASTEN. I am just suggesting to you that some of my colleagues don't look upon it in quite the same way that you do, and what you might be doing is defeating your own best interests.

I thank you for your testimony before the subcommittee today. There may be additional questions that we will send to you, for the record, and you can respond to those.

Mr. SADD. Thank you kindly.

Senator KASTEN. Next is Father George and Father Bradley from Georgetown University.

Our next witness is Reverend William George, special assistant to the president of Georgetown University. My understanding is that your colleague is unable to be with you today. Is that correct?

Father GEORGE. Yes; Father Bradley could walk in any minute. He is either stuck in an airplane or a taxicab.

Senator KASTEN. We appreciate very much your being here today, and we look forward to a summary of your testimony.

GEORGETOWN UNIVERSITY

STATEMENT OF FATHER WILLIAM L. GEORGE, S.J., SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

HEMISPHERIC MIGRATION PROJECT

Father GEORGE. Thank you. Mr. Chairman.

I am Father William George, special assistant to Father Healy, the president of Georgetown University.

I wish to thank you and your subcommittee for your support concerning the Hemispheric Migration Project. Things are moving well. We met with the first group of scholars last week, and they came up with some recommendations. We met for 2 or 3 days.

We will be meeting with ICM in the middle of April to discuss the actual steps to go through, taking in the recommendations of the scholars who were very impressed and enthusiastic about the program. Their only question is, can they do it in as timely a fashion as we would like them to for the amount that is available.

We would like to ask the subcommittee to remember that we are going to be looking for some private and maybe perhaps some other public funds, it looks like, in the range of $100,000 to $200,000.

Senator KASTEN. I think the people in the back of the room are having a hard time hearing you.

Father GEORGE. We would also like to support the recommendations of the National Bipartisan Commission on Central America concerning developing educational opportunities for students in Central America, particularly the recommendation that there be 10,000 exchanges of Latin American students, Central American students in the United States.

They recommended $100 million for that phase of their recommendations, and we suggest that there might be less costly ways to do that. We would ask the committee to perhaps investigate using existing networks of universities between the United States and Latin America.

I do thank you, Mr. Chairman, and that is the extent of my remarks.

[The prepared statement of Father George follows:]

STATEMENT OF

REV. WILLIAM GEORGE, S.J.

SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

AND

REV. HAROLD BRADLEY, S.J.

DIRECTOR OF THE CENTER FOR IMMIGRATION POLICY AND REFUGEE ASSISTANCE

Mr. Chairman and members of this committee we are Father William George, S.J., Assistant to the President of Georgetown University and Father Harold Bradley, S.J., Director of the Center for Immigration Policy and Refugee Assistance at Georgetown.

We thank your Committee for its support of the Hemispheric Migration Project and wish to report on its current activity. We support the recommendations concerning developing educational opportunitiies of the National Bipartisam Commission on Central America.

Two years ago we testified about the need for the kind of research we were proposing for the Hemispheric Migration Project. Last year we reported that we had been negotiating with the Bureau for Refugee Programs of the Department of State to develop an acceptable research proposal. Since that time, the State Department has supported our proposal. Based on their recommendation we have carried out the necessary arrangements with the Intergovernmental Committee on Migration to establish the mechanism to gather the desired information and plan for its presentation to policy makers in the United States and other nations of the Hemisphere.

We began our negotiations with ICM in July 1983. Funds were not available for the project until October. Between October and the present time we have been working with ICM to agree on personnel and to select mutually agreed upon scholars to advise us on the project. Last week the group of scholars met in Washington for the first time with representatives of Georgetown and ICM to plan the future of the project. (A list of their names and institutional affiliation is attached to this testimony.) The scholars were very supportive of the objectives of the project but were skeptical of the ability to carry out the proposed research with the funds now avaliable and within the time limits envisioned by our agreement with the Refugee Bureau. We anticipate that it may be necessary to ask for an extension of the term of contract and to seek other public and private funds to complete the proposed research.

We support the initiative for a program of 10,000 government-sponsored scholarships for Central American students in the United States. However, we believe that this could be done at a cost to the Government of the United States of substantially less than the $100,000,000 mentioned in the report of the Bipartisan Commission. We would suggest that the Committee recommend to the Executive Branch that these scholarships can be offered at less cost to the Government by using programs about which the Commissioners might not have been aware. For instance, there are existing networks of universities in the United States and Central America such as theInternational Student Exchange Program which could be utilized. Some of the additional objectives of the Bipartisan Commission concerning human development, such as the reduction of malnutrition, the elimination of illiteracy and the improvement of education at all levels, can be achieved at less cost through an innovative cooperation between the Executive Branch and universities in the United States.

On behalf of our President, Reverend Timothy S. Healy, S.J., we thank you the for opportunity to appear before this Committee.

HEMISPHERIC MIGRATION PROJECT
Experts Review Group

Dr. Vilmar Faria
FUNDAP
Fundacao do Desenvolvimento Administrative Publico
Foundation for the Development of Public Administration
(Brazil)

Dr. Charles Keeley
The Population Council
(New York, U.S.A.)

Dr. Lelio Marmora
International Labor Office
U.N. High Commission for Refugees
(Argentina)

Dr. Dawn Marshall
The Institute of Social and Economic Research
University of the West Indies
(Barabdos)

Dr. Thomas Merrick
Center for Population Research
Georgetown University
(Washington, D.C. U.S.A.)

Dr. Gabriel Murillo
Political Science Department
Universidad de los Andes
(Colombia)

Dr. Alejandro Portes
Department of Social Relations
Johns Hopkins University
(Maryland, U.S.A.)

Dr. Helen Safa
Center for Latin American Studies
University of Florida at Gainesville
(Florida, U.S.A.)

Dr. Alan Simmons
International Development Research Centre
(Ontario, Canada)

SCHOLARSHIP PROGRAM

Senator KASTEN. Father, we thank you for the work that you have been doing. The subcommittee appreciates your specific work, of course, on refugee matters. It is innovative, and I hope that you will keep us informed of your projects and your progress. We are anxious to work with you.

I would like to ask you if you could expand a bit on what you just said about the scholarship program. You might have heard what Dr. Walsh said earlier. The scholarship program consists of 10,000 Government-sponsored students. You are suggesting that that could be done at less cost to the Government by, I think you said, using existing networks or existing programs.

Specifically what are you talking about in terms of these existing networks that could be simply expanded?

Father GEORGE. Father Bradley is the real expert on this. Could I give a summary, and then perhaps have Father Bradley submit something specific to the committee?

Senator KASTEN. That would be fine.

Father GEORGE. Regarding the selection, the professor from Wisconsin recommended that there was a need to target particular kinds of students to particular schools, and such. Depending on that mixture, you might be able to find American students who want to exchange with that student. If that is the case, you could exchange places and tuition down there for places and tuition here, and the only expense would be administrative costs.

The International Student Exchange Program does it that way now, and there are about 100 universities in that network.

Senator KASTEN. Essentially, we could have an exchange program that would be a net zero.

Father GEORGE. It would be a wash, except for the administrative costs and perhaps some travel.

When you get to your less likely student who might be very poor, and may have a political problem of getting on the list to get to the United States in a particular country, then the United States may have to supply all of the funds if they want a particular student who has been identified. That would require some work with the people in the field down there. Father Bradley has been working this out.

One of the suggestions that we would make is that there may be a good reason to send some Latin American students to some of our rural community colleges. In our experience, we found that many foreign students who come from little villages, or might be pulled out of the bush, they are kind of intimidated by some of our major institutions in major cities, or huge universities.

The community college atmosphere for a couple of years can give them a taste, give them some insight as to how they can do their farming, or whatever it is, if it is a community college in an agricultural setting. They're here for only 2 years, they finish their degree in Latin America. You have them back to finish their degree. It is one way of making sure that they return with some of the stimulation from our own expertise. I would like to submit something for the record on that.

Senator KASTEN. I thank you for being here. We will anticipate that Father Bradley can provide us with some additional information on that. It is very intriguing and, of course, we are always trying to figure out ways of being more effective and efficient. Maybe with your work and Father Bradley's work, we can make those kinds of suggestions to the administration and, in fact, implement those kinds of programs.

Father GEORGE. Thank you, Mr. Chairman.

Senator KASTEN. We thank you for your testimony today, and we look forward to working with you throughout the year.

[The information follows:]

GEORGETOWN UNIVERSITY
WASHINGTON, D.C. 20057

[illegible], 1984

Robert W. Kasten, Jr.
Chairman, Sub-Committee on Foreign Operations
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

For the past six years Georgetown University has been bringing students to the United States under the International Student Exchange Program. A total of 1500 students, including 750 foreign students who have come to the U.S., have been funded at a cost to the federal government of less than $1,500 each. This saving has been possible because of the system of exchanges which allows the American student to pay for his or her education in the United States and exchange places with a student who has paid fees in his or her home country.

It would not be possible to finance the education in the United States of a large number of students from Central America at the present time because there are not an equal number of students from the United States who wish to study there. Nevertheless, Georgetown University is prepared to organize study programs in the United States for one hundred and forty five student years (i.e., a minimum of 72.5 persons for 2 yrs each) for disadvantaged students from Central America. Twenty five of these student years would be paid for by exchanges and one hundred twenty would be purchased in Community and Technical Colleges. We estimate that this program would cost $1,840,750 or $12,695 per student year in contrast with other proposed programs which would have a per student year cost of between $18,000 and $20,000 per year. An added advantage of beginning to support these student costs with exchanges would be that the number of exchanges could be increased each year.

We would be pleased to discuss this proposal with representatives of the United States Ageancy for International Development at their convenience. I am enclosing further information on the International Student Exchange Program and a list of participating universities.

Respectfully yours,

Harold Bradley, S.J.

Harold Bradley, S.J.
Special Assistant

Enclosures

International Student Exchange Program

The International Student Exchange Program (ISEP), which was established in 1979, is a fully-reciprocal, university-level exchange scheme funded primarily by a grant from the United States Information Agency, under authority of the Fulbright-Hays Act of 1961.

Based at Georgetown University in Washington, D.C., ISEP provides an administrative and financial structure to facilitate the regular exchange of students on a one-to-one basis between participating institutions in the United States and institutions around the world. ISEP has grown from an initial ten member institutions to a network of more than 125 institutions in over 20 countries.

The ISEP program is designed so that students pay all of their fees, including tuition, room and board, to their home institution and take up a place at an ISEP host institution, with no money changing hands. Exchanges can occur at any tertiary academic level and in any discipline and can range in length from one semester to two years. While the total number of incoming and outgoing students at each institution must balance, ISEP exchanges are usually multilateral in nature: each ISEP institution may enroll candidates from member universities abroad at which its own nominees may or may not choose to study. This flexibility is one of the strengths of the ISEP program.

An institution may join ISEP by indicating its willingness to comply with the Terms of Participation by signing the ISEP Agreement and completing the Membership Questionnaire. A one-time institutional membership fee of $200 is charged to join the program. In addition, a placement fee of $100 is charged for each student accepting a placement through ISEP.

For additional information, please contact:

Ms. Janine M. Farhat
Executive Director
International Student Exchange Program
Georgetown University
1242 35th Street, NW
Washington, DC 20057 U.S.A.
tel: (202) 625-4737
Telex: 64574 ISEP

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MEMBERSHIP

June 14, 1984

AUSTRALIA	Deakin University The Flinders University of South Australia Macquarie University *University of Wollongong
BELGIUM	Katholieke Universiteit te Leuven Université Catholique de Louvain
BRAZIL	Pontifícia Universidade Católica do Rio de Janeiro Pontifícia Universidade Católica de Minas Gerais
CANADA	University of Alberta Brock University University of Calgary Laurentian University University of New Brunswick University of Prince Edward Island University of Regina
COLOMBIA	Universidad de los Andes Universidad EAFIT Instituto Colombiano de Estudios Superiores de INCOLDA (ICESI) Pontifícia Universidad Javeriana Universidad del Norte
COSTA RICA	Universidad Nacional Autónoma de Heredia
FINLAND	University of Helsinki University of Tampere
FRANCE	Université de Droit, d'Economie et des Sciences d'Aix-Marseille Université d'Angers Université de Caen Université de Franche-Comté Université des Sciences Sociales (Grenoble II)
FRANCE (cont'd)	Université des Langues et Lettres (Grenoble III) Université de Lille III Institut National des Sciences Appliquées de Lyon Université de Nice Université de Savoie
GERMANY	Katholische Universität Eichstätt Justus-Liebig-Universität Gießen Philipps-Universität Marburg Universität Trier
HONG KONG	Chinese University of Hong Kong
ITALY	Administered through the Rui Foundation: Università degli Studi di Firenze Università degli Studi di Pavia Università degli Studi di Urbino
KENYA	Kenyatta University College
MALTA	University of Malta
MEXICO	Instituto Tecnológico y de Estudios Superiores de Occidente (ITESO)
NIGERIA	University of Ibadan
SWITZERLAND	Université de Lausanne
TANZANIA	University of Dar es Salaam
THAILAND	Thammasat University
TOGO	Université du Bénin
TUNISIA	*University of Tunis
UNITED KINGDOM	University of Glasgow Plymouth Polytechnic University of Sheffield South Glamorgan Institute of Higher Education University of Strathclyde Ulster Polytechnic/University of Ulster

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* Institution is participating to redress exchange imbalance.

THE INTERNATIONAL STUDENT EXCHANGE PROGRAM
a non-profit membership organization for institutions of higher learning, is affiliated with Georgetown University and funded primarily by the United States Information Agency under authority of the Fulbright-Hays Act of 1961.
1242 35th Street, N.W., Washington, D.C. 20057 (202) 625-4737 Telex: 64574 ISEP

UNITED STATES

Alabama	University of Alabama in Birmingham
Arkansas	Arkansas State University Hendrix College
California	University of California-Irvine, Riverside, Santa Barbara Pitzer College
Colorado	University of Colorado-Denver
Connecticut	Central Connecticut State University Fairfield University Western Connecticut State University
District of Columbia	*Catholic University of America Georgetown University Howard University
Idaho	University of Idaho
Illinois	Southern Illinois University-Carbondale
Indiana	Ball State University
Iowa	University of Iowa
Kansas	Fort Hays State University University of Kansas
Kentucky	Murray State University
Louisiana	Louisiana State University Northwestern State University of Louisiana University of Southwestern Louisiana
Maryland	Frostburg State College
Massachusetts	Boston University *Brandeis University Mount Holyoke College University of Massachusetts-Amherst
Michigan	Siena Heights College
Minnesota	University of Minnesota
Mississippi	University of Mississippi
Missouri	Southeast Missouri State University
Montana	Montana State University
Nebraska	Kearney State College University of Nebraska-Lincoln
New Jersey	Saint Peter's College
New York	Adelphi University State University College, Buffalo Siena College
North Carolina	North Carolina State University-Raleigh University of North Carolina-Charlotte
Ohio	Miami University *Wittenberg University
Oregon	*Southern Oregon State College Reed College
Pennsylvania	Bryn Mawr College Dickinson College Indiana University of Pennsylvania Lebanon Valley College Muhlenberg College University of Scranton Susquehanna University
South Carolina	College of Charleston Clemson University Coastal Carolina College-USC
Tennessee	Shelby State Community College University of Tennessee-Knoxville Tennessee State University
Utah	University of Utah Utah State University
Vermont	Castleton State College University of Vermont
Virginia	George Mason University Old Dominion University Virginia Commonwealth University Virginia Polytechnic Institute and State University
Washington	Western Washington University
Wisconsin	University of Wisconsin-LaCrosse
Wyoming	University of Wyoming

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* Institution is participating to redress exchange imbalance.

June 14, 1984

AMERICAN HELLENIC INSTITUTE OF PUBLIC AFFAIRS COMMITTEE

STATEMENT OF PROFESSOR DEAN C. LOMIS, CHAIRMAN, AMERICAN HELLENIC INSTITUTE OF PUBLIC AFFAIRS COMMITTEE

FOREIGN AID FOR TURKEY, GREECE, AND CYPRUS

Senator KASTEN. We are going to skip one witness, and the next witness will be Dr. Dean Lomis representing the Hellenic Institute.

Professor Dean Lomis is the chairman of the American Hellenic Institute Public Affairs Committee, and we are very pleased to have your testimony today. Welcome to the subcommittee.

Professor LOMIS. Thank you, Senator.

Mr. Chairman, and members of the subcommittee:

I appreciate the opportunity to appear before the subcommittee on behalf of the American Hellenic Institute and present views on the foreign aid appropriation legislation for fiscal year 1985 affecting Turkey, Greece, and Cyprus, and on the unexpended portion of the fiscal year 1984 funds.

Mr. Eugene Rossides, our special counsel, is to be here, and he may be arriving a little late.

Senator KASTEN. It seems that everybody is late today.

Professor LOMIS. It is a nice day.

The administration proposes $934 million in military and economic aid for Turkey—$759 million military composed of $230 million MAP military grant, and $250 million FMS military sales with concessionary terms, $275 million FMS military sales with conventional terms, $4 million for military training, and $175 million in ESF economic grants and loans. For Greece, $500 million FMS military sales with conventional terms, and $1.7 million military training, and $3 million for aid to Cyprus.

We oppose as contrary to the best interests of the United States the lack of conditions precedent on aid to Turkey and the amounts and type of that aid. We believe it is essential, if progress is to be made on the Cyprus problem and Greek-Turkish relations generally that the principle of conditionality be established.

CONDITIONS ON TURKISH AID

The conditions precedent on all military and economic aid to Turkey that we recommend for consideration by the subcommittee include the following:

(1) Turkey has returned the city of Famagusta/Varosha to the Republic of Cyprus. The area should be specifically delineated as that proposed by the United States in its 1978 initiatives;

(2) Turkey has withdrawn all of its military forces on Cyprus which are in excess of those permitted by the 1960 Treaty of Alliance;

(3) Turkey is in compliance in occupied Cyprus and in Turkey with international standards of human rights as expressed in the Helsinki Accords and other international conventions;

(4) Turkey has withdrawn all Turkish colonists from Cyprus;

(5) Turkey has agreed to cooperate with the United States and the International Red Cross in connection with the estimated 1,600 missing Greek Cypriots and 8 missing Americans;

(6) Turkey has withdrawn its recognition of the so-called "Turkish Republic of Northern Cyprus" and has persuaded the Turkish Cypriots, in accordance with Security Council Resolution 561, to revoke their illegal action;

(7) Turkey is taking steps, including good faith support for and participation in talks conducted under United Nations auspices, to achieve a settlement of the conflict on Cyprus based on U.N. resolutions and internationally recognized principles of majority rule with full minority rights;

(8) Turkey has paid war reparations to the Republic of Cyprus; and

(9) Turkey has given effective guarantees of no future intervention in Cyprus.

INCREASE IN AID FOR CYPRUS

We recommend that the amount of $3 million proposed for Cyprus be increased to $15 million as was done last year and that consideration be given to an additional increase of $25 million in view of the significant assistance Cyprus has given to U.S. efforts in the area in the past 18 months.

Whatever value Turkey is to the United States and Western interests is minimized as long as the Cyprus problem remains unsettled. This year marks the 10th year of Turkey's invasion and occupation of northern Cyprus. The continued failure to put these conditions precedent on aid to Turkey has sent the wrong signals to Turkey and made Turkey and the Turkish Cypriots more intransigent.

The illegal unilateral declaration of independence by the Turkish Cypriots on November 15, 1983, just hours after President Reagan signed the 1984 foreign aid bill into law, and Turkey's immediate recognition of that illegal act, are just the latest examples of Turkey's and the Turkish Cypriots' disdain of the Congress and lack of good faith in negotiating a settlement of the Cyprus problem in accordance with normally accepted democratic principles.

As we interpret the 1978 Foreign Assistance Act, aid should cease because of the Turkish Cypriot and Turkish actions. These events make it clear that conditions precedent to aid to Turkey must be based on objective and verifiable criteria.

We note the 7-to-10 ratio debates of recent years. Any true 7-to-10 ratio should provide that the terms for Greece be identical and that economic aid be part of that equation. We oppose grant and concessional term aid to Turkey.

GREECE AND TURKEY AID ON 1-TO-1 BASIS

We believe that it is preferable that aid to Turkey and Greece be at least on a 1-to-1 basis, including military and economic. To achieve this ratio, we call for the reduction of the administration's $930 million proposal to $500 million and that the terms be identical.

In view of our own budget deficit, we call for a further reduction of $350 million in aid to Turkey to a maximum of $150 million as we do not believe Turkey is of significant value strategically and, based on the historical record, Turkey is of doubtful reliability.

Mr. Chairman, the policy of this and previous administrations regarding aid to Turkey has not worked and has cost the American taxpayers millions of dollars and added substantially to our annual debt service costs. In 1984, interest charges of $108 billion will account for about 13 percent of budget outlays and more than half of the current deficit. We urge all those who have supported aid to Turkey without conditions to review their previous position and support meaningful and objective conditions precedent on aid to Turkey as in the best interest of our Nation.

Recently, Mr. Richard Perle, the Assistant Secretary of Defense for International Security Affairs, has stated to a Turkish newspaper that Congress will not impose any meaningful conditions on Turkey. Prove him wrong, gentlemen. His comments are very counterproductive.

I have with me today an official statement from the Turkish Embassy quoting Mr. Perle as saying, and I quote, "We have no ally whose strength and resolve and reliability that can match that of the Republic of Turkey."

MISSILES ON TURKISH SOIL

Yet, in the Sunday New York Times of March 18, the Soviet Union sent their First Secretary to meet with President Kenan Evren of Turkey. Mr. Evren told the Russians that they will not, under any circumstances, put any missiles on their soil. The American embassy source was very surprised at Turkey's move, and as they quote—I quote from the statement from the American Embassy in Ankara—"We do not understand why Turkey feels obliged to make such an announcement upon Russian requests."

We believe that a full evaluation of U.S.-Turkish relations is long overdue. Turkey's flagrant violation of the rule of law, human rights, international treaties, bilateral agreements, and the United Nations Charter is a matter of record. Yet, the executive branch's policy of attempting to appease Turkey through large amounts of military and economic aid has failed. The more Turkey demands, the more we give, and the more we give, the more Turkey demands.

The Turkish Government has repeatedly declared that it will not abide by any decision enacted by Congress. Such tactics by Turkey against American goodwill and tolerance for nearly a decade now must be treated in the same manner as the American reply to the XYZ similar blackmail affair of nearly two centuries ago, but in up-to-date figures: "Billions for defense, but not a cent for tribute."

History has proved that we cannot buy friendship. In the case of Turkey, we have invested billions of dollars, every penny of it as shaky as the Turkish lira on the international market.

The past three administrations, including the present one, have repeatedly referred to Turkey as "our faithful ally." It is high time that we lay this myth—and myth it is—to rest.

Turkey's long history of oppression against Armenians, Greeks, Jews, Kurds, Turks themselves, and now Cypriots is well documented in the annals of history. I have documented for you in the paper that has been submitted, five heinous international crimes and abrogated treaties prior to World War II, during World War II, and 20 more since 1973. However, due to the limited time, I will leave those for your own reading.

CYPRUS ASSISTANCE TO UNITED STATES

I do, however, want to say a few words about Cyprus, a country under Turkish occupation for nearly a decade now, and a country which has provided unlimited and unrestricted access to the United States and our Middle East interests.

During the recent terrorist attack against our Marines in Beirut, it was Cyprus and only Cyprus that opened its airfields and its hospitals—although the latter were not used—to assist in the evacuation of the dead, the dying, and the wounded from the carnage of that unfortunate city.

Cyprus continues to this day to offer unrestricted use of its free territory to the United States for the evacuation of Americans and other nationals from the ruins of Beirut. Yet, the Turkish daily Cumhuriyet, in its February 12, 1984, issue quotes Rauf Denktash that the Greek Cypriots were openly cooperating with the United States by opening their ports to U.S. ships and their airports to U.S. planes.

He alleged that the Greek Cypriots were providing fuel and logistic facilities to the United States, and he said: "The Americans use the Greek Cypriot sector as one uses a base." Then he also added: "Our suspicion is that the Greek Cypriots might have concluded a secret agreement to provide any facilities to the United States and others in return for their support of the Cyprus problem."

Asked if he were referring to the U.S. press reports last year about the United States-Cyprus Government agreement on use of the Cyprus ports for troop movement to Lebanon, Dentktash replied that there was more to the actual agreement than those reports.

Gentlemen, President Reagan's January 24, 1984, bimonthly report on Cyprus should be declared null and void. Rather, the President should be instructed to practice the rule of law in accordance with his own January 23, 1983, State of the Union Address, "Responsible members of the world community do not threaten or invade their neighbors and they restrain their allies."

U.S. POSITION IN EASTERN MEDITERRANEAN

The policies of the past three administrations, the present included, disregarding the rule of law and our policy against aggression, have resulted in a weakened U.S. security posture in the Eastern Mediterranean. The Turkish occupation of Cyprus now in its tenth year, achieved with U.S.-furnished aid, has exacerbated historic antagonisms between Turkey and Greece, and alienated Greece from a long-standing tradition of friendship with the United States.

We can no longer afford to waste billions of dollars of American taxpayers without commitments to collective security and to the rule of law.

In closing, the eyes of the world are upon the United States. Let us exercise a moral foreign policy expected of America, and Cyprus is a good place to begin.

Thank you, Mr. Chairman, and members of the subcommittee.

[The prepared statement of Professor Lomis follows:]

PREPARED STATEMENT OF PROF. DEAN C. LOMIS
CHAIRMAN
AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE INC.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee on behalf of the American Hellenic Institute Public Affairs Committee, Inc., and present views on the foreign aid appropriation legislation for fiscal year 1985 affecting Turkey, Greece and Cyprus. Accompanying me is Eugene T. Rossides, Esq., Special Counsel to our Committee.

The Administration proposes $934 million in military and economic aid for Turkey ($759 million military composed of $230 million MAP military grant, $250 million FMS military sales with concessionary terms, $275 million FMS military sales with conventional terms, $4 million military training, and $175 million ESF economic grants and loans); and for Greece, $500 million FMS military sales with conventional terms and $1.7 million military training; and 3 million for Cyprus.

We oppose as contrary to the best interests of the United States the lack of conditions precedent on aid to Turkey and the amounts and type of that aid. We believe it is essential if progress is to be made on the Cyprus problem and Greek-Turkish relations generally that the principle of conditionality be established. The conditions precedent on all military and economic aid to Turkey that we recommend for consideration by the Subcommittee include the following:

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auspices, to achieve a settlement of the conflict on Cyprus based on UN resolutions and internationally recognized principles of majority rule with full minority rights;

(8) Turkey has paid war reparations to the Republic of Cyprus; and

(9) Turkey has given effective guarantees of no future intervention in Cyprus.

We recommend that the amount of $3 million proposed for Cyprus be increased to $15 million as was done last year and that consideration be given to an additional increase to $25 million in view of the significant assistance Cyprus has given to U.S. efforts in the area the past 18 months.

Whatever value Turkey is to the U.S. and Western interests is minimized as long as the Cyprus problem remains unsettled. 1984 marks the tenth year of Turkey's invasion and occupation of northern Cyprus. The continued failure to put these conditions precedent on aid to Turkey has sent the wrong signals to Turkey and made Turkey and the Turkish Cypriots more intransigent.

The illegal unilateral declaration of independence by the Turkish Cypriots on November 15, 1983, just hours after President Reagan signed the 1984 foreign aid bill into law, and Turkey's immediate recognition of that illegal act, are just the latest examples of Turkey's and the Turkish Cypriots' disdain of the Congress and lack of good faith in negotiating a settlement of the Cyprus problem in accordance with normally accepted democratic principles.

As we interpret the 1978 Foreign Assistance Act, aid should cease because of the Turkish Cypriot and Turkish actions. Unfortunately, on the recommendation of the State and Defense Departments, President Reagan certified progress in his January 24, 1984, report, thus allowing aid to continue to Turkey despite the illegal actions of the Turkish Cypriots.

These events make it clear that conditions precedent to aid to Turkey must be based on objective, verifiable criteria,

We note the 7 to 10 ratio debates of recent years. Any true 7 to 10 ratio should provide that the terms for Greece be identical and that economic aid be part of the equation. We oppose grant and concessional term aid to Turkey.

We believe it is preferable that aid to Turkey and Greece be on at least a one to one basis including military and economic. To achieve this ratio we call for the reduction of the Administration's $930 million proposal to $500 million and that the terms be identical.

In view of our budget deficit, we call for a further reduction of $350 million in aid to Turkey to a maximum of $150 million as we do not believe Turkey is of significant value strategically and, based on the historical record, Turkey is of doubtful reliability.

Mr. Chairman, the policy of this and previous Administrations regarding aid to Turkey has not worked and has cost the American taxpayer billions of dollars and added substantially to our annual debt service costs. In 1984 interest charges of $108 billion will account for about 13% of budget outlays and more than half of the current deficit. We urge all those who have supported aid to Turkey without conditions to review their previous position and support meaningful and objective conditions precedent on aid to Turkey as in the best interests of our Nation.

Mr. Richard Perle, Assistance Secretary of the Defense for International Security Affairs, has stated to a Turkish newspaper that Congress will not impose any meaningful conditions on Turkey. Prove him wrong! His comments are counterproductive.

We believe that a full reevaluation of U.S.-Turkey relations is long overdue. Turkey's flagrant violation of "the rule of law," human rights, international treaties, bilateral agreements, and the United Nations Charter is a matter of record. Yet, the Executive Branch's policy of attempting to appease Turkey through large amounts of military and economic aid has failed. The more Turkey demands, the more we give; the more we give, the more Turkey demands. The "sick man of Europe" has become the "extortionist of the Middle East."

The Turkish government has repeatedly declared that it will not abide by any decision enacted by Congress. Such tactics by Turkey against American goodwill and tolerance for nearly a decade now must be treated in the same manner as the American reply to the XYZ similar blackmail affair of nearly two centuries ago, but in up-to-date figures: "Billions for defense but not a cent for tribute."

History has proved that we cannot buy friendship. In the case of Turkey we have invested billions of dollars, every penny of it as shaky as the Turkish lira on the international market.

The past three Administrations, including the present, have repeatedly referred to Turkey as "our faithful ally." It is high time that we lay this myth — and a myth it is — to rest.

Turkey's long history of oppression against Armenians, Greeks, Jews, Kurds, Turks themselves, and now Cypriots is well documented in the annals of history. Turkey is guilty of having committed the first heinous international crime in this century, the first "holocaust," with their genocidal annihilation of nearly 2,000,000 Armenians. When in 1936, at the beginning of Hitler's "solution to the Jewish problem," he was asked what would the world say about the extermination of Jews, Hitler's reply was: "What did the world say when the Turks exterminated Armenians!"

During World War I, Turkey joined and fought with Central Powers against the Allies and, therefore, against the United States.

Hours before the German attack on Greece in World War II, Turkey broke a defensive alliance with Greece, declaring neutrality, leaving Greece to fight alone. This was a repeat performance by Turkey to its earlier abrogation of a similar treaty with France. Greece's very significant role as an important ally is clearly described in "Background Notes," Greece, Department of State Publication 8198.

In 1942, the United States initiated a "lend-lease" program to Turkey which remained in effect for the duration of the war. As it is reported in the Twenty-Third Report to Congress on Lend-Lease Operations, Turkey received $27 million. At the same time, however, Turkey provided Nazi Germany with abundant supplies of chromium, the important alloy needed to make steel to produce bombs, thus prolonging the war, bringing death to millions of people and to thousands of American soldiers. It was not until 1944 under direct American and British pressure "to stop the country's entire export of chrome and other materials to Germany" that Turkey finally complied.

I submit to you now Turkey's modern track record toward the United States which shows no improvement:

1. In 1973, during the Middle East war, Turkey permitted the Soviets to overfly her territory and permitted overland convoys to supply the Arab countries at war against Israel whose security the United States had vowed to support. Turkey refused the U.S. overflight rights.

2. In like manner, Turkey permitted Soviet overflights to support Ethiopian insurgents, who eventually took over that country and established a pro-Soviet regime.

3. In July and August of 1974, against the U.S.-Turkish bilateral agreement of July 1, 1947, the London-Zurich Agreement of 1959, the Foreign Military Assistance Act of 1961, the Foreign Military Sales Act of 1961, the United Nations Charter, international laws and treaties, Turkey illegally used American-supplied arms and equipment to invade and conquer 40% of the independent island-nation of Cyprus. Since then, Turkey has disregarded the "rule of law" by refusing to adhere to all these, and to the subsequent United Nations resolutions repeatedly calling for the removal of Turkish troops from the island in respect to the country's independence, territorial integrity, and international recognition. In the process of that invasion,

the Turks moved into and took over the NATO military base in Adana, Turkey, from where they staged their air attacks on Cyprus and refueling and re-arming of their aircraft for follow-up attacks.

4. As it is documented by then-Prime Minister Sir Harold Wilson, in his 1979 book: Final Term, the Labour Government 1974-1976, on the evening of July 24, 1974, two days after a cease-fire was arranged to provide for representatives of Britain, Greece and Turkey to meet in Geneva to repair the damage, the Turks informed the British that they were about to break the cease-fire by bombing the Nicosia airportmanned by United Nations Forces. A strong protest from the British, first resisted by then-Prime Minister Bulent Ecevit which would have caused the British to "not hesitate to order our fighters to shoot down his aircraft," prevented what Sir Wilson considered, "the nearest that Britain came to war with another nation since 1945." Henry Kissinger's repeated failure to take part in the Geneva negotiations was harshly criticized by Sir Wilson as: "Once again the intervention of the United States was missed."

5. During the early years of the Carter Administration, when a SALT treaty seemed within reach, Turkey refused to agree to permit American use of Turkish territory for verification of Soviet conduct, unless, as Turkey bluntly told us, "the Soviets did not object." So much, therefore, for Turkish loyalty.

6. In 1978, contrary to the Montreux Convention of 1936, Turkey permitted the Soviet aircraft carrier KIEV to sail through the Dardanelles and into the Mediterranean Sea. The Montreux Convention excludes "aircraft carriers from transitting the straits, though such ships may enter at the invitation of Turkey." How accommodating America's "faithful ally Turkey" is to our chief adversary, the Soviet Union!

7. In 1980, Turkey refused to permit the U.S. to use the NATO base at Diyabarkir in eastern Turkey for about 450 mile helicopter flights to Tehran to free the American hostages, compelling our government to attempt a suicidal mission from over 900 miles away.

8. The January 20, 1981, New York Times wrote that the Turks were not in favor of "the United States using Turkish bases for conflicts not affecting Turkey." This was substantiated two years later when in the Spring, 1983 issue of Foreign Policy magazine Harry Shaw pointed out that Turkey is unlikely to become involved, or allow U.S. forces to use Turkish territory in a Middle East war that does not threaten her territory directly. This was further substantiated by Ali Karaosmanoglu of the Turkish Foreign Policy Institute in Ankara in his article, "Turkey's Security

in the Middle East," in the Fall, 1983 issue of Foreign Affairs magazine. On page 168, he writes, "... on several occasions Turkish officials have declared that Turkey has no intention of taking part in the RDF" (Rapid Deployment Force). He adds emphatically that: "Turkey will make no formal strategic commitments outside the NATO framework."

9. During the time of the holding of the American hostages in Tehran, the Washington Post reported that Turkey was "attempting to maintain a rapport with America's (at that time) most bitter enemy, the revolutionary theocracy of Ayatolla Rudollah Khomeini."

10. It was during that same period that Morton Kondracke wrote in the New Republic, "There is no one to give a Turkish defense, if there is one. Given their record, it is very hard to love the Turks."

11. Recently, the Turks refused an American request to install antennas in Turkey for eleven transmitters whose broadcasts would have been beamed primarily to the Soviet Union and to the East European countries. As reported in the July 22, 1983, issue of Newsweek, the initiative by the U.S. State Department sought to improve reception of programs broadcast by Radio Free Europe, Radio Liberty, and the Voice of America, now constantly jammed by the Soviet Union. With the installation of these antennas, the Soviet jamming activities would have been greatly overcome. So much, therefore, for Turkish efforts for collective security.

12. On June 23, 1978, Turkey signed pacts of "non-aggression and expanded trade" with the Soviet Union in exchange for $1.6 billion for the next year, thereby "threatening to change the East-West balance of power in the Middle East,' unless the U.S. ended its arms ban on Turkey," as reported in the 1981 Readers Digest Almanac.

13. Turkish disrespect for human rights is a sore spot in the eyes of the free world and an embarrassment to the United States. Recently, an organization of Turkish workers in Germany rejected efforts to be repatriated back to Turkey on the grounds that they would face "lack of human rights and security in Turkey." Yet, our Administration believes that Turkey will return to real democracy.

14. During the Session on Human Rights at the State Department Foreign Policy Conference on April 6 and 7, 1983, the officer lecturing form "background notes" stated, "What do we do with Turkey to return that government to democratic rule, given the fact that Turkey's bad history on human rights is well known?" Turkey's abominable human rights record, even against her own minorities of Greeks, Armenians, Kurds, Jews, and political adversaries is well documented and condemned

in the most recent Amnesty International Report, 1982 and clearly documented with calls of concern in the October, 1982 United States Congress Staff Report on the Human Rights Situation in Turkey.

15. On May 16, 1983, the Turks permitted the Soviet aircraft carrier NOVOROSIISK to sail through the Dardanelles and into the Mediterranean Sea. This was the second time in five years that the Turks breached the Montreux Convention which forbids such penetration of the Straits. The presence of this carrier in the Mediterranean, with its 25 fighter-bomber aircraft and its 16 helicopters, and with speed of 30 knots, poses a formidable threat to the U.S. Mediterranean Sixth Fleet.

16. Contrary to international law, Turkey has been colonizing northern Cyprus with colonists from the Turkish mainland, taking away properties belonging to Greek Cypriots, thus creating what Christopher Hitchens, Washington correspondent of The Nation has so-correctly termed: "an unprecedented development in the last quarter of the 20th Century, the creation of a colony by a country" which calls itself "European."

17. Turkey is the fifth largest recipient of U.S. foreign aid since the end of World War II, during which she remained a pro-Nazi neutral. Currently Turkey is the third largest recipient of U.S. foreign aid. Yet Turkey, which has not fought a war in over 60 years, is constantly "broke" and begging and getting. Our country is now called upon to give Turkey $1 billion in aid per year for the next ten years. Why should the American taxpayers be burdened for Turkey's irresponsible fiscal policies, compounded further by her illegal occupation of 40% of Cyprus? The "sick man of Europe" is now the "beggar of the Middle East."

18. Turkey is receiving American foreign aid as a NATO Member for defensive purposes to guard its common border with the Soviet Union. Yet, the Turks have created the "Aegean Army" of some 130,000 troops, with landing craft, opposite the Greek Islands on the Aegean Sea. This has forced the Greeks to place a substantial number of their forces on their islands. In addition, there are between 25,000 and 30,000 Turkish troops stationed as occupying forces in Cyprus against "the rule of law." Why, then, should the United States be spending over $1.5 billion to Greece and Turkey for nearly 200,000 troops facing each other or occupying another country and not be stationed on the borders which they are financed to guard?

19. Also, Turkey, that "faithful ally" of ours, is the largest recipient of

Soviet aid outside the Soviet bloc, having accepted from the Soviet in the past twenty years about $4 billion -- a sum larger than such countries as Syria, Iraq, Egypt, and India. Where do Turkey's commitments lie? How can our nation place any credibility upon Turkish promises?

20. Last (but only due to time limination) a few words about Cyprus, the country under Turkish occupation for nearly a decade now, the country which has provided unlimited and unrestricted access to the United States in our Middle East interests. During the recent terrorist attack against our marines in Beirut it was Cyprus, and only Cyprus, that opened its airfields — and its hospitals, although the latter were not used — to assist in the evacuation of the dead, the dying and the wounded from the carnage of that unfortunate city. Cyprus continues to this day to offer unrestricted use of its free territory to the United States for the evacuation of American and other nationals from the ruins of Beriut. Yet, the Turkish daily Cumhuriyet, in its February 12, 1984, issue quotes Rauf Denktash that the Greek Cypriots were openly cooperating with the U.S. by opening their ports to U.S. ships and their airport to U.S. planes. He alleged that the Greek Cypriots were providing fuel and logistic facilities to the U.S. He said: "The Americans use the Greek Cypriot sector as one uses a base." Denktash added: "Our suspicion is that the Greek Cypriots might have concluded secret agreements to provide any facilities to the U.S. and others in return for their support on the Cyprus problem." Asked if he were referring to the U.S. press reports last year about the U.S.-Cyprus government agreement on use of the Cyprus ports for troop movement to Lebanon, Denktash replied, that there was more to the actual agreement than those reports.

President Reagan's January 24, 1984, bimonthly report on Cyprus should be declared null and void. In accordance with Public Law 95-384 enacted under pressure from the Carter Administration, the President is to report "progress" in his bimonthly reports. The unilateral declaration of independence by the Turkish Cypriots and the immediate acceptance of that globally-declared illegal act which has made mockery of our policies by being proclaimed only hours after President Reagan signed the nearly $1 billion aid to Turkey, regresses the situation on Cyprus and, if anything, under the law, should automatically reinstate the embargo on Turkey, i.e. no aid until Turkey is in compliance with our laws and that there has been substantial progress towards a Cyprus settlement. President Reagan should be instructed to practice "the rule of law" in accordance with his January 23, 1984, State of the Union Address: "Responsible members of the world community do not threaten or invade their neighbors and they restrain their allies."

The policies of the past three administrations, the present included, disregarding the rule of law and our policy against aggression, have resulted in a weakened U.S. security posture in the Eastern Mediterranean. The Turkish occupation of Cyprus now in its tenth year, achieved with U.S. furnished aid, has exacerbated historic antagonisms between Turkey and Greece, and alienated Greece from her long-standing traditional friendship with the U.S. We can no longer afford to waste billions of American taxpayers' dollars without commitments to collective security and to the rule of law. Accordingly, the Congress of the United States, the conscience and the voice of our nation, must enact and fully support legislation which calls for meaningful conditions on military and economic aid to Turkey.

The United States should call on the NATO Alliance to "guarantee" the borders of all its members from any force stemming from outside or within the Alliance. In this manner, the Turkish "fear" -- unwarranted as it is -- that "Cyprus is a dagger to the side of Turkey," expressed by the recently installed new Prime Minister of Turkey, will be eliminated. For the guarantee to be effective, however, the Turks will have to evacuate their forces from Cyprus and return that country to its legal and internationally-recognized elected government.

The eyes of the world are upon the United States. Let us exercise a moral foreign policy expected of America, and Cyprus is a good place to begin.

Thank you Mr. Chairman and Members of the Subcommittee.

GREEK VOTING RECORD IN U.N.

Senator KASTEN. Professor Lomis, thank you, first of all, for your testimony. As you are no doubt aware, this subcommittee specifically, as a matter of fact, and the Congress has been strongly supportive of the position of helping the Greeks. We, in this subcommittee, increased last year's dollars to Cyprus to the $15 million that you referred to in your testimony.

I have to say that it is getting more and more difficult to support the government in Greece as we see more and more of the public statements made by that government. I am sure that you share the concerns of many of my Greek constituents in Wisconsin and in the Midwest with whom I have had the opportunity to meet and to discuss in very candid language the growing concern of the public statements, and in some cases the policies, coming out of the Government of Greece.

I don't know if you are aware of the U.N. voting record report that is now required by Congress to be submitted by our Ambassador to the United Nations. If you are not aware of it, I would hope that you would become aware of it. Let me just say to you that in the tally of the NATO countries in this year, the highest was the United Kingdom, followed closely by Germany—both of them were above 80 percent in support of our U.N. positions, 84 and 82 percent, respectively. At the bottom of the list by roughly 20 points was Greece, supporting the United States roughly one quarter of the time, 26 percent.

As we work for some of the goals that you have outlined here, I think that you should know and that Greece should know that it is just becoming tougher and tougher, as we open up the New York Times and see somebody taking another shot at us, and often that is the government.

I would assume that you, as a Greek American, are as concerned and as aware of these problems as we are here. I just want to state this.

Professor LOMIS. I am very concerned, and I am glad that you brought it up for two reasons.

As a former U.S. Air Force officer who spent time in Greece, Turkey, and the Middle East, I am very concerned when I see that our entire foreign policy is having problems in that part of the world, first and foremost. However, in response to the record of the Greek Government in regard to the United Nations, I would like to say two things.

One is, we also have not supported in the United Nations with our vote much about the problems in Cyprus. We have abstained quite a number of times.

Second, the major problem here is not so much Greece as it is Cyprus because, after all, American law was broken when the Turks went into Cyprus, and here is a country that is receiving American aid and is increasingly getting aid, and they maintain their troops in Cyprus against our own policies.

For instance, currently, we know that there are about 113,000 Turkish troops stationed in the GNC, rather than on the Russian border where they are to be stationed. There are approximately 60,000 or so Greek troops on those islands because they are facing each other, and about 25,000 Turkish troops on the Island of Cyprus, which means that there are about 200,000 troops either facing each other or occupying another country, while we are giving over $1.5 billion to the two countries to protect the borders that they are getting paid to protect, but they are not there.

Senator KASTEN. You didn't answer my question. I understand what you said, but I just want you to know that some of the statements have not been helpful.

Professor LOMIS. We are very concerned as well.

Senator KASTEN. You are concerned as Americans.

Professor LOMIS. As Americans, absolutely. We view this, sir, as an American dilemma.

Senator KASTEN. Some people in our Government, in discussing the overall problem in Cyprus—we are as a subcommittee interested in trying to work toward negotiations and toward a conclusion. That is essentially the position we have taken. There was a plan proposed by Secretary Shultz for a while, I guess, but that is no longer out in front in terms of the things that the administration is working on.

In discussions, some people say that Greece is also partly to blame for an inability to get a settlement on Cyprus. You are suggesting withholding funds to Turkey. What would you think if we withheld funds to Cyprus, Greece, and Turkey, and said, "All right, all of you have a responsibility for this. All of you sit down and come up with a response."

Professor LOMIS. Senator, I would challenge the Senate to do that. I think that it would be a great idea.

Senator KASTEN. I am not at all sure that that is something that is even appropriate, but I appreciate your comment. This is something that we were thinking about, have thought about and talked about, maybe getting everybody in the room and say, "You all have an interest in the outcome. You all have an interest in a solution." I was interested in, and I appreciate your answer.

Thank you for your testimony here today.

Professor LOMIS. Thank you, sir.

Senator KASTEN. The next witness is Mr. Thomas Dine representing the American Israel Public Affairs Committee.

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

STATEMENT OF THOMAS A. DINE, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

ACCOMPANIED BY DOUGLAS BLOOMFIELD, LEGISLATIVE DIRECTOR

FOREIGN AID PROGRAM FOR ISRAEL

Mr. DINE. Thank you, Mr. Chairman, for the opportunity to testify before this distinguished subcommittee on behalf of foreign aid to Israel in fiscal year 1985.

Appearing with me is Mr. Douglas Bloomfield, AIPAC's legislative director.

To put this year's aid package in perspective, the vital interest of the United States in the security and well-being of Israel is an appropriate starting point. The common values shared by the peoples of the United States and Israel are the bedrock of a special relationship that has spanned almost four decades, through good times and bad.

Israel shares with the United States a heritage of democratic traditions and Judeo-Christian values, and it is a member of the family of free nations. Its democratic character is rooted in the principle that government derives its legitimate power from the people, who express themselves through open elections, unfettered freedom of speech, a robust free press, and other rights protected by the independent judiciary.

The American people understand the moral and democratic ties between the two countries. They have consistently and repeatedly expressed their support for Israel in poll after poll for over three decades, typically showing empathy and understanding for Israel over the Arab nations by margins of four or five to one. For example, in a recent Gallup poll of August 1983, Israel was supported by 48 to 12 percent. In January 1984, a Roper poll showed support for Israel 44 to 8 percent.

STRATEGIC LOCATION OF ISRAEL

Israel is also a country of considerable strategic importance to the United States and the West. Its critical location at the anchor of the Mediterranean basin and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent Soviet-allied forces from becoming the dominant powers in the region, make Israel a strategic ally of great value in this critical part of the world. By wide margins, Americans, again, regard Israel as a more reliable ally than Egypt or Saudi Arabia.

U.S. MILITARY SUPPLIES TO ARAB STATES

I want to talk this afternoon on an issue of timely importance to all of us that goes beyond aid. We must take note of the interrelationship between our commitment to the security of Israel and the decisions that we make on the sale of advanced military equipment to Arab States that have not made peace with the Jewish State.

Every aircraft, or missile, or tank that we provide to Saudi Arabia or Jordan adds to the threat Israel must counter, driving still higher the defense burden and Israel's need for U.S. aid. If we transfer Stingers to Jordan, for example, we may well be spending the lives of Israeli pilots even without a war. We are certainly driving up the cost of Israeli defense.

Stingers are, in addition, an idea weapon for terrorists who may seize it from Jordanian arsenals. It is the thin edge which may include in the future other related weapons like additional improved Hawk missiles and advanced fighter aircraft for the Jordanian armed forces.

Clear majorities in the House and the Senate have expressed opposition to the sale of sophisticated arms like the Stinger to the Hashemite Kingdom until King Hussein agrees to sit down and directly negotiate peace with Israel. This he refuses to do, and under the circumstances, there is no justification for a sale which will substantially erode the security of Israel and multiply the cost of Israel's defense.

ACTIONS OF KING HUSSEIN TOWARD PEACE EFFORTS

King Hussein has dealt a severe blow to the peace process in the Middle East. In interviews with the New York Times last week, and the Washington Post, and even on Sunday on the CBS "Face the Nation" program, he repeatedly ruled out direct negotiations with the Israel and barred U.S. mediation. He blamed the United States for refusing to abandon our democratic ally Israel. He threatened to turn to the Soviet Union. He criticized the United States for daring to broker an accord between Lebanon and Israel. He scapegoated the U.S. Congress. He implied once again that the role of the United States should be to deliver Israel on Arab terms, and he accused the United States of failing to live up to its principles.

These statements are a deep disappointment to all of us who seek to advance the peace process in the Middle East. Coming in the wake of Lebanon's abrogation of the Israel-Lebanon Agreement, and Egypt's distancing itself from the peace treaty with Israel, King Hussein's renewed rejectionism raises serious questions about Arab moderation and willingness to live in peace with Israel.

U.S. PRINCIPLES IN PEACE PROCESS

In these circumstances, the United States needs to recommit itself to the fundamental principles that it has long upheld:

The United States cannot and will not impose peace on the parties to the Arab-Israeli conflict.

The United States can and will act as a peace broker only when Arab leaders are prepared to sit down and negotiate with Israel.

The United States, in the words of Secretary of State Shultz, "has had, does have and will have a strong relationship with Israel—regardless of Arab objection."

The United States friendship and support for Israel is not incompatible with, but rather is the very foundation of the Middle East peace process.

Overwhelming majorities in both Houses of Congress, reflecting the will of the American people, support the strengthening of United States-Israel relations and the aid package before you.

Thank you, Mr. Chairman, for the opportunity to present our views on behalf of the pro-Israel public. I would ask that the whole statement be inserted in the record as delivered.

Senator KASTEN. Without objection, your entire statement will be made part of the record.

[The prepared statement of Mr. Dine follows:]

PREPARED STATEMENT OF THOMAS A. DINE

EXECUTIVE DIRECTOR

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee on behalf of foreign aid to Israel for Fiscal Year 1985. Appearing with me are Mr. Douglas Bloomfield, AIPAC's Legislative Director, and Mr. Steven Rosen, AIPAC's Research and Information Director. I will summarize my testimony and ask that the full text be inserted in the hearing record.

AIPAC is the Washington voice of Americans who seek to maintain strong and consistently close relations between our country and Israel. On our Executive Committee sit the Presidents of the 38 major American Jewish organizations representing more than four-and-a-half million members throughout the United States.

To put this year's aid package in perspective, the appropriate starting point is the vital interest of the United States in the security and well-being of Israel. The common values shared by the peoples of the United States and Israel are the bedrock of a special relationship that has spanned almost four decades, through good times and bad. Israel shares with the U.S. a heritage of democratic traditions and Judeo/Christian values, and is a member of the family of free nations. Its democratic character is rooted in the principle that government derives its legitimate power from the people, who express themselves through open elections, unfettered freedom of speech, a robust free press, and other rights protected by an independent judiciary.

We now see in the United States an energetic campaign by enemies of the U.S.-Israel relationship to undermine the moral ties between the two countries. Their method is to focus attention exclusively and relentlessly on any aspect of Israel which puts the Jewish state in a negative light, and thus to erode the relationship. Israel, although a democracy, has, like the United States itself, some unsolved social problems. But it is, in any honest accounting, the one country of the Middle East that shares our own commitment to freedom. None of the Arab countries, whose interests the anti-Israel propagandists seek to promote, has anything approaching the standard of democratic rights and civil liberties which Israel has maintained.

The American people understand this. They have consistently and repeatedly expressed their support for Israel in poll after poll for over three decades, typically showing empathy and understanding for Israel over the Arab nations by margins of four or five to one. For example, in the most recent Gallup poll (August 1983), Israel was supported by 48-12%.

Israel is also a country of considerable strategic importance to the U.S. and the West. Its critical location at the anchor of the Mediterranean basin and in the heart of the Middle East, the fighting strength of its armed forces, and its commitment to prevent Soviet-allied forces from becoming the dominant powers in the region, make Israel a strategic ally of great value in this critical part of the world. By wide margins, Americans regard Israel as a more reliable ally than Egypt or Saudi Arabia, e.g., ABC polls.

But the strength and the democratic vitality of Israel depend on the health of its economic foundations. These are, as you well know, under great stress.

To put the economic problems in focus, it is important to recognize that today's Israel in fact constitutes one of the great economic achievements of the postwar years. A nation of impoverished immigrants returned to a land almost barren of natural resources, and within a few short decades built agricultural, industrial, and service sectors comparable in their level of development to many of the nations of Europe. This remarkable development in a few short decades was achieved primarily by the hard work and entrepreneurship of the people themselves, in an economy that rewards free and intelligent enterprise.

But Israel is, at the same time, staggering under the burden of financing its defense, as it tries to maintain a military balance with a broad coalition of adversaries who have fifty times the population and almost as many aircraft and tanks as NATO. Since 1973, several of the Arab League states have enjoyed an enormous infusion of wealth generated by inflated oil prices, and they have devoted a great share of this to amassing arms against Israel. As a result, Israel is forced to devote over thirty percent of its resources to defense - compared to six percent in the U.S. and now one percent in Japan.

The resources of the Arab confrontation states make it possible for them to maintain a combined military budget that is double the size of Israel's entire gross national product. This allows the Arab confrontation states to spend more than $10,000 on war preparations per Israeli citizen, while Israel spends less than $140 per citizen of the hostile Arab states.

Another common error is the allegation that the threat to Israel is subsiding, and that the Jewish state can therefore afford to relax its defenses. The truth is, unfortunately, quite the opposite. Syria, to cite but one of the enemy states, has been engaged in an extraordinary buildup intended to achieve a dramatic shift in the military balance. In just the past eighteen months, Damascus has added hundreds of the most advanced Soviet tanks, several squadrons of advanced combat aircraft, missiles never before seen outside the Soviet Union, and many other weapons.

Perhaps most troubling of all, a host of innovations are being introduced in command, control, and communications to enable the Syrians to employ new and old weapons more effectively, helping to erode Israel's superiority at the level of battle management that has enabled the Jewish state to prevail over numerically superior forces in the past. And, of course, the Soviets themselves are present with about 7,500 men on the ground, in some cases manning advanced systems, while also overseeing every aspect of the modernization of the Syrian forces.

However, Syria is not the whole problem. A wide circle of Arab states openly profess that they will, as in the past, send aircraft and expeditionary forces to join the battle if there is a future war against Israel. Many of these, such as Libya, are armed far beyond the requirements of home defense. Some, like Saudi Arabia, worsen Israel's problem further by bringing to the battle the latest European and American weapons. This means that Israel must not only match the best that Soviet science and industry can offer, but also combat the state-of-the-art technologies of Western nations.

Israel is a small nation of four million people. It is not a superpower. But it must have the fighting strength to defeat combined armies comparable in their totality to the whole of NATO on the central front. No other small country in the world faces anything like the threat that is a daily fact of Israel's existence.

Thus, Israel's security certainly cannot be taken for granted, lest we wake up one morning to discover that our optimism was wrong, that Israel could not hold the line against an Arab attack, and that the Jewish state has been overrun by radical Arab forces bent on its destruction. Make no mistake, the first war that Israel loses will be her last. Israel must have a margin of safety, an ability to deal with the unforeseen, a capacity to defend itself in the worst case.

U.S. aid plays a vital role in preserving this margin of safety, although the main burden is, of course, borne by the people of Israel themselves. But much of the aid program until this year has consisted of loans, with the result that an enormous debt burden has accumulated. In FY 1985, Israeli debt service on past loans will exceed a billion dollars, and the situation in the future will worsen as the ten-year moratoria on repayment of principal expire. For this reason, the President has recommended that all security assistance henceforth be given on a grant basis. While this will not solve the problem of the debt that has already accumulated, it will at least put a cap on the growth of the principal sum owed (which now exceeds $10 billion). I am gratified by the bipartisan support that exists for this necessary change.

Israel is taking strong measures to deal with its own economic problems, imposing in many cases still greater sacrifices on a citizenry already among the most heavily taxed in the world. These include: (1) severe reductions in government spending; (2) a drastic devaluation of the shekel, driving up the prices of imported goods; (3) increased taxes on consumer goods and travel; (4) painful cuts in government subsidies of basic consumer products; (5) reduction of wage indexation for most earners, leading to a reduction in real personal incomes; and (6) a freeze on most government hiring. Projected consequences of these measures include a decline of seven to ten percent in real wages during the next year, and a substantial increase in unemployment. Among those adversely affected will inevitably be men and women who have sacrificed so much for the nation's defense.

Israel is not the only small nation facing a balance of payments and debt service problem. The magnitude of Israel's problem is, relative to size, one of the largest in the world. Yet, unlike other nations under stress, Israel has paid all its bills on time, and has not asked for debt rescheduling. It has also taken austerity measures more severe than most governments have dared.

But we, the United States, can help too, by providing the necessary aid levels; acting expeditiously to establish a U.S.-Israel free trade area to promote commerce between the two nations for their mutual benefit; allowing Israel to compete openly and fairly for U.S. government procurement of defense goods and services on the same terms our other allies enjoy; and funding the binational research and development foundations.

Finally, it is important to take note of the interrelationship between our commitment to the security of Israel, and the decisions that we make on the sale of advanced military equipment to Arab states that have not made peace with the Jewish state. Every aircraft or missile or tank that we provide to Saudi Arabia or Jordan adds to the threat Israel must counter, driving still higher the defense burden and Israel's need for U.S. aid. If we transfer Stingers to Jordan, for example, we may well be spending the lives of Israeli pilots; even without a war, we are certainly driving up the cost of Israeli defense. Stingers are, in addition, an ideal weapon for terrorists, who may seize it from Jordanian arsenals. And it is the thin end of a wedge which may include in the future other related weapons like additional improved Hawk missiles and advanced fighter aircraft for the Jordanian armed forces. Clear majorities in the House and Senate have expressed opposition to the sale of sophisticated arms like the Stinger to the Hashemite Kingdom until King Hussein agrees to sit down and directly negotiate peace with Israel. This he refuses to do, and under the circumstances, there is no justification for a sale which will substantially erode the security of Israel and multiply the cost of Israel's defense.

King Hussein has dealt a severe blow to the peace process in the Middle East. In an interview with the New York Times, he ruled out direct negotiations with Israel and barred U.S. mediation. He blamed the United State for refusing to abandon our democratic ally Israel. He threatened to turn to the Soviet Union. He criticized the United States for daring to broker an accord between Lebanon and Israel. He scapegoated the U.S. Congress. He implied once again that the role of the United States should be to "deliver" Israel on Arab terms, and he accused the United States of failing to live up to its principles.

These statements are a deep disappointment to all who seek to advance the peace process in the Middle East. But they are not surprising. For, in reality, King Hussein is the one who has refused to live up to the basic principles of peace and reconciliation:

- In June 1967, King Hussein joined Egypt and Syria in making war on Israel.
- In September 1967, King Hussein endorsed the Arab World's declaration of "no peace with Israel, no recognition of Israel, no negotiations with Israel."
- In 1978, King Hussein rejected the Camp David Accords - negotiated by Egypt, Israel and the United States - which provided the framework for peace in the Middle East.
- In 1979, when Egypt signed a peace treaty with Israel, King Hussein joined the Arab rejectionists at Baghdad, helped expel Egypt from the Arab League, and accepted Arab subsidies of $1.2 billion annually to continue the confrontation with Israel.
- In 1983, although King Hussein did praise the Reagan Plan, he still refused to enter negotiations with Israel. The fact that the Reagan Plan had purposely prejudged those negotiations in his favor by stating that territories under Israeli control should be handed over to Jordan made no difference.
- And now, King Hussein has renounced the peace process and blamed the United States, despite Reagan Administration efforts to encourage him by providing Jordan with generous amounts of military and economic aid as well as a variety of sophisticated weapons.

Coming in the wake of Lebanon's abrogation of the Israel-Lebanon Agreement and Egypt's distancing itself from the peace treaty with Israel, King Hussein's renewed rejectionism raises serious questions about Arab "moderation" and willingness to live in peace with Israel.

In these circumstances the United States needs to recommit itself to the fundamental principles that it has long upheld:

- The United States cannot and will not impose peace on the parties to the Arab-Israeli conflict.
- The United States can and will act as a peace broker only when Arab leaders are prepared to sit down and negotiate with Israel.
- The United States, in the words of Secretary of State Shultz, "has had, does have and will have a strong relationship with Israel -

regardless of Arab objection.

- The United States' friendship and support for Israel is not incompatible with, but rather is the very foundation of the Middle East peace process.

Overwhelming majorities in both houses of Congress, reflecting the will of the American people, support the strengthening of U.S.-Israel relations and the aid package before you. Thank you, Mr. Chairman, for this opportunity to present our views on behalf of the pro-Israel public.

RELATIONSHIP BETWEEN UNITED STATES AND ISRAEL

Senator KASTEN. It seems to members of the subcommittee that, at least at the present time, we have established a relatively stable and strong relationship between this administration in Washington, and the Government of Israel. Would you characterize it in that way, and do you feel that we have been able to develop a growing relationship?

Mr. DINE. I would agree with your words, Mr. Chairman. I would in fact go a little further. You used the words "relatively stable," and I would say that the relationship today, particularly in contrast to what it was a year ago this month, is healthy, is upbeat, is strong, and I think that is going to get stronger.

I give credit to those men and women who have been involved in putting the relationship back on track and then adding to it, as has happened, particularly since the May 17 agreement was signed between Israel and Lebanon, as negotiated and energized by Secretary of State Shultz.

Senator KASTEN. As you know, one of the key concerns of the Congress, and I would say that it is becoming a more and more important concern of the Congress, is the economic situation in Israel—a growing problem with balance of payments, a growing problem with inflation.

Some people looked at the change of Finance Ministers as a signal that the battle on inflation was being lost and that, in fact, the Government would not be able to stand up. I personally feel that over the next couple of years, the economic situation in Israel is going to become every bit as important an issue as the military situation in Israel.

ECONOMIC MANAGEMENT IN ISRAEL

Could you comment, No. 1, on the economic situation in Israel, and, No. 2, on the direction that you think the Israeli Government might be going?

Mr. DINE. On the first item, Mr. Chairman, the Israelis face a very serious problem with their economic management. Interestingly, I think it is a strong economy. The infrastructure is there. The manpower is of incredible achievement orientation. The high technical industries are prospering. It is a flourishing country. Yet, they, like us, face some budgetary problems, and they have spilled over into the balance of payments area.

It is my understanding that the Government, particularly under the new Finance Minister, Cohen Orgad, as you have mentioned, is trying to take measures that are serious and deep. I know they want to cut the budget by 10 percent in different areas.

The Defense Minister, Moshe Arens, was the first Minister, to my understanding, to volunteer that in the area of his responsibilities, he would certainly see to it that the defense budget was cut, even at a time when they were still involved in the Lebanon situation.

I think other ministers are going to have to go along, although it is not easy, particularly in a country that cannot afford unemployment, that cannot afford to not keep on accepting immigrants coming in from around the world. So it is a very, very serious situation.

ECONOMIC DIRECTION OF ISRAELI ECONOMY

Now, in terms of directions, and here I would like to give credit to the Secretary of State again. He is a trained economist. He is genuinely concerned with Israel's economy and economic direction. He has assembled and is working with Israeli economists and American economists, with members of our own Government and the Israeli Government, to try to encourage the Israelis to go ahead and put their house in better order.

One other item just occurred to me, and that is that President Reagan has suggested a free trade area between the two countries. It is quite clear, for Israel to eventually get away from economic support funding, and the Congress has been generous, then the free trade area is going to have to come into being, stimulating an export sector, as well as giving the United States an advantage vis-a-vis competitors, that is, the Common Market, to sell our manufactured products in Israel. As you know, by 1989, the Common Market will have a free trade area with Israel functioning fully. For us to compete, we are going to have to have a free trade area with Israel.

Senator KASTEN. Thank you for your testimony. I think that these economic problems are ones that are too easily overlooked in view of all of the difficult and almost chaotic military situations that we find throughout the Middle East. I think in the end that Israel's challenge is going to be every bit as much an economic challenge as in fact a military challenge in terms of its ability to grow and to prosper.

We thank you for your testimony here today, and we look forward to working with you.

ENVIRONMENTAL POLICY INSTITUTE

STATEMENT OF BRENT BLACKWELDER, ENVIRONMENTAL POLICY INSTITUTE

INTERNATIONAL DEVELOPMENT PROGRAMS

Senator KASTEN. Our next witnesses are Mr. Brent Blackwelder, who is with the Environmental Policy Institute, and Mr. Bruce Rich, who is with the Natural Resources Defense Council.

It is not my intention to divide the 10 minutes between you. It is my intention to simply have you both here because there may be questions that you would both like to respond to because the subject matter of your statements indicate an interest in the same general area.

We would encourage you to summarize your statements, and then maybe we will have time for one or two questions.

Mr. Blackwelder.

Mr. BLACKWELDER. Thank you, Mr. Chairman. I am prepared to be very brief.

The Environmental Policy Institute supports sustainable international development programs and believes there is a fundamental link between wise use of natural resources and a sustainable, prosperous economy.

Too many development projects in the past, however, have been counterproductive, making the lives of those most directly impacted worse and rendering the land sterile for future generations.

We discussed some of the problems with development projects before the House Banking Committee. We believe that these problems should not be occurring, and that there are ways of conducting the development that actually has a benefit to people, rather than make their lives worse.

We are concerned about the deterioration of the global environment, and feel that IDA has a particularly essential role to play. What we would like to see are more alternative projects.

Alternative energy projects that could avoid the serious health, social, and environmental impacts of large dam projects. We would like to see more family planning activities that could provide substantial help to the economies of developing nations.

KEY AREAS FOR DISCUSSION

In a recent meeting with the president of the World Bank, we discussed two key issues. One was the need for greater emphasis on these alternative development projects in the natural resources area, and the second was a need for more staff with natural resource expertise in the planning and review of projects.

Unfortunately, the president of the World Bank, while asking for our support, did not seem to want to commit sizably in these areas.

What we would like to urge the committee to do is to see if you can obtain commitments in these two areas, assuming that you agree with us on the need for alternative approaches to development and on greater staffing in the natural resources area.

If you can get this assurance, then we would like to see IDA's appropriation increased. Failing that, we would like to see an actual decrease—the only difference in the position of environmental groups.

We are both in agreement as to the shift that we would like to see away from the traditional approaches toward alternative development approaches, and I think we are both in agreement as to the need for greater staffing. The only difference we have is exactly what approach we should take to this particular appropriation and what kind of assurances we can receive that the performance and operation of the Bank will differ.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Blackwelder follows:]

ENVIRONMENTAL POLICY INSTITUTE

STATEMENT OF THE ENVIRONMENTAL POLICY INSTITUTE TO THE HOUSE AND SENATE APPROPRIATIONS COMMITTEES CONCERNING THE APPROPRIATION FOR THE WORLD BANK (IDA)

The Environmental Policy Institute supports sustainable international development programs and believes that there is a fundamental link between wise use of natural resources and a sustainable, prospering economy. Too many development projects in the past have been counterproductive, making the lives of those most directly impacted worse and rendering the land sterile for future generations.

The Environmental Policy Institute is concerned about the deterioration of the global environment and feels that there is an essential role which the multilateral development banks, and in particular IDA, could play in restoring and rehabilitating damaged watersheds and forest lands and in guiding nations into a pattern of sustainable development. Alternative energy projects could avoid the serious health, social, and environmental impacts of large dam projects. Family planning activities could provide substantial help to the economies of developing nations.

At a recent meeting with the President of the World Bank we discussed two key issues: 1) the need for greater emphasis on these alternative projects in the natural resource area and 2) the need for more staff with natural resource expertise in the planning and review of projects. While the President of the Bank asked for our support of IDA, he indicated that it was unlikely that we would see many alternative projects in the energy and agricultural sectors in the next few years. Furthermore, he did not acknowledge the need for any greater staffing by natural resource experts.

In view of the World Bank's current unwillingness to accommodate these crucial concerns, the Environmental Policy Institute recommends that Congress fund IDA only on the condition that 1) there is improved staffing for environmental review and planning of projects and 2) the selection of projects reflect an increasing proportion of alternative approaches, including restoration of damaged forest and farmland and appropriate scale energy projects. If the Committee has the assurance that these alternative sustainable strategies will be pursued more vigorously and that a major change in the staffing and attention to these matters is being made, then we urge the Committee to go beyond the Administration's request and increase the U.S. contribution to IDA. If the Committee cannot obtain this assurance, then we urge a greatly reduced appropriation for IDA.

Attached is a copy of the testimony we presented to the House Banking Committee concerning the major shortcomings of development projects of the multilateral development banks.

Brent Blackwelder
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March 20, 1984

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Environmental Policy Institute

Introduction

The United States has helped finance development projects around the world which have had extremely adverse impacts on local populations, which have damaged areas of critical environmental significance, and which have been plagued by major engineering and operation problems. This testimony will concentrate primarily on the large water development projects which the U.S. helps to finance through the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and other multilateral development institutions.

More dams will be completed in the 1980's than in any previous decade, with the greatest acceleration of dam construction coming in third world nations. Of the 49 large dams (over 150 meters high) to be completed in the 1980's, 33 will be located in developing countries. These dams are primarily built for the purpose of hydropower production and irrigation. The World Bank estimates that $100 billion will be spent over the next two decades on large hydropower projects in Third World countries.

The evidence we wish to present suggests that local and regional populations, and the poor in particular, are not the ones who benefit from many of the large water development projects. Some irrigation projects end up salinizing the land they were designed to make productive. Others fill rapidly with silt and still others collapse. If a project does produce benefits, these can accrue for the most part to multinational corporations which get electricity at bargain rates, employ few local people, and contribute little to the local economy. Some of the agricultural projects appear to leave local populations with less to eat as lands are converted to cash crops such as cotton or beef.for export. Indigenous peoples can find their cultures virtually exterminated by these projects. Many people are afflicted with serious diseases as a result of water development projects in tropical climates.

The list of environmental damage which can be caused by various water development projects includes the loss of critical wildlife habitat such as tropical forest and wildlife sanctuaries, the elimination of endangered species, the destruction of estuarine and ocean fisheries, and the creation of air and water pollution problems.

The following list displays some of the major categories of adverse impacts from water development projects together with the names of projects which fall in these categories. The list of effects and projects in not meant to be exhaustive. The code also shows the status of the projects: c=completed, u.c.=under construction, p=planned.

1) increase the spread of diseases such as malaria,schistosomiasis and onchocerciasis--Volta (Ghana) (c); Kariba (Zambia-Zimbabwe) (c); Tembeling (Malaysia) (p); 27 dams in Brazil's Amazon Basin (p).

2) create reservoirs which will fill with sediment in less than 100 years--Mangla (Pakistan) (c); Tehri (India) (u.c.); El Penol (Colombia) (u.c.); Bayano (Panama) (c)

3) have significant engineering, safety, and/or operational problems--Tarbela (Pakistan) (c); Tablachaca (Peru) (c); Saguling (Indonesia) (u.c.); Chixoy (Guatemala) (u.c.); Khao Laem (Thailand) (u.c.)

4) inundate areas of special environmental, scientific, or educational significance--Nam Choan (Thailand) (p); Tembeling (Malaysia) (p); Mana Pools (Zambia-Zimbabwe) (p); 27 dams in Amazon Basin (Brazil) (p)

5) displace indigenous peoples from their homes and destroy their cultures— Bayano (Panama) (c); Changuinola and Teribe (Panama) (p); 27 dams in Amazon Basin (Brazil) (p); Tembeling (Malaysia) (p)

6) create or involve water quality problems—Mantaro (Peru) (u.c.); 27 dams in Amazon Basin (Brazil)(p); Curua Una (Brazil) (c);

7) salinize or waterlog irrigable lands— 25 million hectares worldwide are affected; 15 percent of India's irrigated land is now unusable.

Health Impacts

Although another panel will be describing the health problems of various development projects, the Environmental Policy Institute wishes to point out that reservoirs, both large and small, in warm climates have created favorable conditions for the spread of schistosomiasis, onchocerciasis (river blindness), and malaria as well as a number of other serious diseases. Reservoirs in tropical areas create favorable habitats for the breeding and survival of the mosquitoes, snails, and black flies which transmit the diseases. These diseases have made a surprising resurgence as a result of large development projects:

> "Malaria which vanished in the post-war years in India has made a comeback and with such a ferocity that more than 8 million people...were affected last year...Many people ask how could malaria be back after so many years? How could there be schistosomiasis in areas where there was none before?...the return of all these diseases directly relates to the creation of favorable habitats for their breeding and survival. And these habitats largely relate to the development efforts of nations such as by erecting dams, creating vast water reservoirs and digging irrigation canals where mosquitoes can survive and the schistosomiasis harboring snails survive." (Ecoforum, December, 1982)

The Volta Project in Ghana and the Kariba Dam on the Zambezi River, both World Bank financed, have spawned these diseases. The numerous dams planned throughout the Amazon Basin in South America could have similar effects, as could the Tembeling River Project in Malaysia.

Researchers Hunter, Rey, and Scott who have completed a survey of the health problems created by reservoirs in the tropics express the concern that the problems will become "exponentially more serious" if preventive measures are not taken:

> "Economic growth through the dissemination of production benefits should promote good health rather than create illness and disease as is frequently the case today...Increasing illness will ultimately jeopardize economic development no matter how successful the latter appears to be in the short run...Sufficient evidence has now accumulated to show that the ecological consequences of water resources development, including the increase of parasitic and infectious diseases, are predictable empirically...it appears highly unethical to create and then ignore health hazards." ("Man-Made Lakes and Man-Made Diseases," John Hunter, Luis Rey, and David Scott, Soc. Sci. Med. v.16, 1982)

Sedimentation

The lifespan of reservoirs in many countries is being greatly shortened by heavy siltation or the filling up with sediment. In some instances engineers have miscalculated the sediment load in the river. In other cases poor logging or farming practices upstream from the dam have resulted in massive erosion, leading to rapid siltation of the reservoir below. Hydropower is billed as a renewable resource, but if the reservoir has been ruined by sedimentation, the associated hydropower project will have been just as nonrenewable as a fossil fuel plant.

The Tehri Dam, now being built in India, will be the world's sixth highest dam. The Indian geological survey estimates that it will fill with sediment in 30-40 years instead of its design life of 100 years. The Mangla Dam in Pakistan was constructed at a cost of $600 million even though it was projected to fill with silt in less than a century.

The lifespan of the Bayano hydrocomplex in Panama may be reduced by as much as 75 percent as government and private entrepreneurs quickly exploit the timber reserves around the reservoir. Rapid deforestation around the Tucurui hydroproject in Brazil could threaten the success of the project.

Colombia should have learned about sedimentation after its Anchicaya Dam lost 80 percent of its five million cubic meter capacity in just two decades, but the same fate is facing two more of its big dam projects—El Penol and San Carlos, both funded by multilateral development banks.

The Environmental Policy Institute believes that a much more long-range view of natural resource development must be taken. The financing of dam projects which sacrifice great river valleys for just one century's worth of gain disregards our obligation to future generations. Yet the attitude of engineers who design these projects is that if you can amortize your investment in fifty years, who cares about what happens after that.

Engineering and Operational Problems

The serious engineering and operational problems besetting major development projects are not well-known. The failure rate of dams worldwide is almost one percent, a shockingly high rate which would never be tolerated in the United States. There has been insufficient experience with large dams to know all the problems that may develop over their lifespans. The pressures for quick development of hydropower projects have prevented careful planning and design. The result has been cost overruns which can jeopardize the economics of the project as well as making for safety and repair problems during the life of the dam.

The Tablachaca Dam in Peru, financed by the Italians and the Inter-American Development Bank, is threatened by an enormous landslide from a mountain next to the reservoir. Some estimates put the cost of repair as high as one billion dollars for this dam which supplies one-sixth of Peru's power.

Indonesia's biggest hydroelectric project at Saguling, funded by the World Bank, has experienced unexpected geological folding and widespread ground movement which have cast doubts on the viability of the project:

> "Unexpectedly intolerant ground conditions have forced relocation of tunnel lines, prompted a switch in excavation methods and led to the introduction of a broad range of ground stabilizing techniques...Costs have soared beyond the $615 M (million) tender sum." (World Water, May, 1983)

Part of the blame for the set-backs must rest with the attempt to do a major project too quickly. Major hydroprojects can make enormous environmental changes and must be carefully evaluated. Many like the Saguling Project are being built in very difficult terrain from a geological standpoint and require the utmost caution and preparation but do not receive it.

The $300 million Khao Laem Dam on Thailand's Quae Noi River is being built at a site engineers describe as "moonscape and plum pudding rock." (World Water, April, 1983) Here again difficult geological conditions have caused cost increases.

Loss of Areas of Special Significance

Large-scale water development projects are threatening national parks, world heritage sites, wildlife refuges, tropical forests, endangered species, and areas with extraordinary historic and archeological interest. Here are several examples.

The Nam Choan Dam in Thailand, tentatively approved for funding by the World Bank would flood a portion of the Thung Yai Wildlife Sanctuary and form a barrier between this Sanctuary and the adjacent Huai Kha Khaeng Sanctuary. These two sanctuaries constitute a single block of 4800 square kilometers of forest, one of the largest remaining in Thailand. These two sanctuaries are of international importance as they hold the largest populations of the endangered Asian elepahnt and Banteng in Thailand as well as many other threatened or endangered species such as the Guar, Tapir, Leopard and Tiger. Dam construction would divide this significant forest sanctuary and block migration and interchange of large mammal populations. Experts fear that dam construction will lead to large-scale deforestation and poaching of wildlife, repeating a scenario that has already beset the Salak Phra Wildlife Sanctuary following construction of the Srinakarin Dam. The Environmental Assessment for the project is totally lacking in scientific credibility as it suggests that animals displaced by the dam will simply "move elsewhere." When critical forest preserves are eliminated, the animal populations which they support are also destoryed. Adjacent areas of forest are at carrying capacity and animals which can use forest clearings are quickly slaughtered if they move out of the forest.

The Tembeling River hdryoelectric project in Malaysia would involve the construction of a 130-square-kilometer reservoir in the Taman National Park. Funding would likely come from the multilateral development banks. Most Malaysian forest, which dates back 30 million years and is some of the world's oldest, has already been cut. The Taman National Park is the only place where the forest is protected. The park is home to an incredible diversity of wildlife, including 250 species of birds, the Tapir, Tiger, Leopard, Sun Bear, Sumatran Rhinoceros, Seladang (wild ox), Monitor Lizards, Gibbons, and Monkeys. According to the chairman of the Malayan Nature Society, "Damming the Tembeling River could affect more than 70 percent of the lowland fauna and flora." Archeologists claim that the dam would destroy important Bronze age sites in the richest archeological area in the Malaysian Peninsula. Indigenous Malaysians, called Orang Asli, would be forced from their land by this project.

Brazil plans to flood out an area of tropical forest the size of Montana to build hydroelectric dams during the remainder of this century. The destruction of species and the loss of tropical forests is already occurring at an alarming rate. Funding from multilateral development banks has been and is continuing to accelerate the loss of tropical forests which furnish a significant amount of the earth's oxygen. The impacts of these Amazonian dams on indigenous people and on water quality will be described in subsequent sections.

Africa's Zambezi River already contains two enormous reservoirs, Kariba and Cabora Bassa, and plans are being made for a third reservoir between the two existing ones. This reservoir would inundate the Mana Pools area which provides critical riparian habitat for Africa's spectacular wildlife. The dam would be located on the Zimbabwe-Zambia border. The Zimbabwe Tourist Bureau has prepared a film documenting the disastrous wildlife impacts of a dam in this location, pointing out that the Mana Pools area is precisely the habitat used by antelope herds and their predators during the dry season. The film suggests alternative locations for hyropower dams should they be needed. Multilateral development banks might be requested to fund this big project.

Destruction of Indigenous Peoples

Between 1969 and 1978 water development projects funded by the World Bank forced over 170,000 members of tribal groups from their native lands.

The Volta Dam in Ghana displaced 75,000 people while the Kariba Dam moved 57,000. The Bayano hydropower project in Panama flooded 350 square kilometers of the homeland of the Cuna Indians, almost 80% of their reservation.

Large-scale water development projects are causing unspeakable tragedies for numerous indigenous peoples around the world who are forcibly moved off their land and hunting grounds, sometimes into entirely different ecosystems. Some are seriously afflicted with diseases spawned by new reservoirs and irrigation ditches. Attempts to mitigate these adverse impacts have not generally been successful. As native peoples are moved away from their homeland, their culture which is inextricably bound to the land in many cases, tends to disintegrate.

Tremendous relocations are scheduled to occur as massive new dams are built around the world. In Panama additional hydroprojects threatening Indian people are planned, including the Changuinola and Teribe developments. Over thirty Brazilian tribes face cultural extinction as a result of 27 hydropower projects as associated development. Dr. Paul Aspelin estimates that 245,000 Indian people will be adversely affected by this development, as the following table indicates:

Indian Area/Hydroelectric Project	Est. Hectares Lost
(1) Kaingang (Chapecó, Iraí, Ligeiro)/ Uruguay Basin Dams	1,556
(2) Xokleng/DNOS Northern Itajai (flood control) Dam	714
(3) Guarani/Salto Santiago Dam	1,000
(4) Tuxá/Itaparica Dam	240
(5) Truka/Itaparica Dam	500
(6) Parakanan/Tucurui Dam	86,500
(7) Gaviões/Tucurui Dam (power line & railroad)	330
(8) Guajajara/Tucurui Dam (power line)	220
(9) Waimiri-Atroari/Balbina Dam	(unknown, est. 50,000 - 200,000)
(10) Xingú River Basin Dams	(unknown, est. 30,000 - 60,000)
MINIMUM TOTAL, excluding Waimiri-Atroari & Xingú:	91,060
INTERMEDIATE TOTAL, including Waimiri-Atroari & Xingú:	171,060
MAXIMUM TOTAL, including Waimiri-Atroari & Xingú:	351,060

Source: Aspelin, Paul L. and Silvio Coelho dos Santos. Indian Areas Affe Threatened by Hydroelectric Projects in Brazil. International Work Group for Indigenous Affairs, Copenhagen, 1981.

Water Quality Problems

The failure to look at all the factors affecting the success of a reservoir project has caused serious problems in impoundments around the world. Reservoirs in tropical areas which are not cleared can experience tremendous build-ups of hydrogen sulfide with a stench so strong that people can be affected 40 miles away. The decomposing vegetation can increase the acidity of the water and corrode the expensive cooling systems in dams and damage the steel casings of the turbines. Noxious waterweeds such as water hyacinth can take over significant portions of the reservoir. Mats of such waterweeds as large as 170 square miles have been reported. These mats of water hyacinth can absorb available nutrients and block the sun from the waters of the lake, thereby reducing the fish population. Potent herbicides such as 2,4-D have been used to combat the growth of waterweeds at the peril of local people and Indian tribes who drink the water.

Brazil will have to confront all of these problems as it seeks international financing for its hydropower projects in the jungle. The problems have already become apparent with the commencement of construction of the Tucurui Dam on the Tocantins River which will flood approximately 760 square miles of tropical forest. Orignially Brazil's state power company Electronorte planned not to clear the reservoir area, but simply to drown 26 million cubic yards of good quality timber. After a warning from World Bank ecologist Robert Goodland, Electronorte decided to clear selected areas but the contracting company for the clearing had little experince in logging. Electronorte then decided to compensate for the slow rate of clearing by spraying with defoliants 2,4-D and 2,4,5-T. Only an international outcry from conservationists halted this spraying scheme. In the meantime, there are problems with deforestation outside the reservoir area which during the life of the project could cause serious sedimentation problems. Thus there is a double irony: the trees in the reservoir impoundment area which need to be cleared haven't been and those in the surrounding areas which should be left to protect the reservoir from siltation are being eliminated.

Colombia has been experiencing water quality problems in connection with the World Bank's El Penol project on the Nare River:

> "Most of the natural forests surrounding the lake have been destroyed by local cattle ranches, and a large amount of vegetation never cleaned up during the first phase of inundation is choking sections of the lake and destroying fish life... the Nare River is suffering from contamination from four municipalities... Along with dead fish, rotting vegetation, and increasing sedimentation, these polluted waters are swept into the Penol Dam and... could result in the accumulation of noxious sulphuric gases." (Environment Report, December 5, 1977)

The pace of dam building has been so rapid with so little thought given to environmental questions such as water quality that some changes must be made to force planners to consider the broad range of impacts and to incorporate the costs of dealing with these impacts into the costs of the project.

Agricultural Projects and Salinization

The noted Soviet soil scientist V. Kovda estimates that 60-80 percent of all irrigated land is becoming more saline as a result of inadequate drainage or canal lining. Each year 200,000-300,000 hectares of irrigated land are lost to cultivation as a result of waterlogging or salinity. Approximately 15 percent of India's irrigated land is now unusable as a result of salinization and waterlogging. Kovda estimates that as many as 25 million hectares of land from Pakistan to Peru have been salinized or waterlogged.

There is a natural tendency for engineers of irrigation projects not to plan for the proper amount of drainage in order to keep costs down. Adequate drainage can be very expensive and might discourage developing countries from a project if such measures were included in the original cost estimates.

In addition to the problem of salting up of productive land, there is a major question about the types of agricultural projects financed by multilateral development banks in the Third World. A number of projects which have come to our attention leave local residents worse off, depriving them in some cases of their land, imposing very severe financial conditions on them as conversion is made to cash crops for export, and even taking away their means of self-assistance.

Between 1971 and 1977 the World Bank and Inter-American Development Bank loaned $1 billion for livestock and meat production in Latin America. Since 1963 the World Bank has made loans to every Central American nation except El Salvador for cattle ranching operations. Far from closing the nutrition gap, these projects facilitate the export of high protein food. This happens because foreign companies can pay higher prices for beef than can domestic consumers and thus the price of local beef increases beyond the bounds of many local families. It is now estimated that two-thirds of Central America's arable land is dedicated to cattle production, but local beef consumption keeps declining. Tiny Central America now provides 13.5 percent of all U.S. beef imports. Forty-six million pounds of beef come to the U.S. each year from Brazil. A side effect of these large scale beef operations in the tropics is the use of large amounts of pesticides and herbicides. In addition to disruption the local ecology with sprays like DDT, the contamination of the beef itself has grown so great that the amount of beef refused by U.S. inspectors because of toxic residues has more than doubled in recent years.

The financing of these beef production projects has served to spur tropical deforestation without providing protein increases for the local populace. Thus, there are strong social and environmental reasons to question these kinds of agricultural projects.

Turning to Africa, the Bura Irrigation and Settlement Project financed by the World Bank in Eastern Kenya has come under heavy criticism for being planned around an export crop, cotton, rather than food for local consumption. At $200 million the pricetag is more than double original estimates with an exceedingly large cost per family of $40,000 per 1.25 hectares. According to World Water magazine, the rate of return is currently estimated at less than 7 percent for 50 years instead of the originally projected 13 percent:

> "as the final costs become known questions are being asked by other donor agencies at least, as to why the World Bank gave the scheme the go-ahead. Only with the most optimistic assumptions about cotton prices and crop production, and what is called 'shadow rating' of the Kenya shilling (assuming a different rate of exchange) did the project appear in 1977 to be able to make an economic rate of return. Now reality is taking over leaving the government of Kenya with massive debts to repay, a major project deficit to fund through the 1980's, and an uncertain future beyond that." (World Water, June, 1982)

In Haiti the building of two new dams, possibly with backing from the Inter-American Development Bank, could aggravate the considerable food deficits in the country, according to a report produced by a French citizens group. The report entitled Haiti a Choice of Development: Hydro-electric Dams or Agricultural Production? says that as a result of drowning the very productive valley, food for between 30,000 and 60,000 people will be lost annually. The report claims that the loss in agricultural production will outweigh the earnings from the sale of electricity to the Port-au-Prince operations which use imported raw material and cheap labor for the production of export goods by foreign firms. The two dams proposed at La Chapelle and Verrettes would drown 3850 hectares and produce less than 50 megawatts of power.

Alternatives

The Environmental Policy Institute is not opposed to large-scale projects as such, but only to those which have negative social, health, environmental, or economic impacts. The thrust of this testimony is that too many of the hydroelectric and irrigation projects are having adverse consequences. Strict guidelines are essential if such results are to be avoided in the future.

In the energy area we prefer smaller scale projects which would include low-head hydro, solar and wind power, and adoption of numerous efficiency improvements in energy use. Where alternative technologies are not feasible, a small fossil fuel plant with pollution controls might avoid many of the disastrous consequences of a large hydroelectric scheme.

The fact that the primary beneficiaries of a number of large hydroprojects seem to be multinational corporations rather than individual consumers or the rural population where the facility is sited, suggests that a review of the equity of such undertakings is in order. In the case of the Volta Project in Ghana, the primary beneficiary is Kaiser Aluminum which receives 70 percent of the power for its smelter operation. Kaiser does not use local bauxite, is exempt from import and export duties, and pays a mere $13 million for electricity worth $200 million. To provide this subsidy to Kaiser some 75,000 people were uprooted and subsequently plagued with diseases following completion of the reservoir. The World Bank financed the Volta Project.

The giant Tucurui Dam now being built in the Amazon jungle is justified on the grounds that it will reduce Brazil's oil import bill. But the main purpose of Tucurui is not to provide electricity to individuals and villages. The project is designed to provide cheap power for bauxite refineries and smelters. To attract the refineries Brazil agreed to give foreign investors big tax breaks, generous import quotas, and bargain basement power rates of one-third the market price. Catherine Caulfield in her article "Dam the Amazon, Full Steam Ahead" points out:

> "Ordinary consumers and local industrialists, the Brazilian taxpayers who paid for the dam, will pay market prices for any electricity they receive from the dam." (Natural History 7/83)

Alternatives are available where new water supply projects are planned. In a number of cities in developing countries there are deteriorations of the water and sewer systems comparable to those being experienced in the United States. For example, Lima (Peru) is reported to be leaking half of its water. Instead of looking to repair, a gigantic scheme to transfer water across the Andes was put in motion with World Bank financing. This so-called Mantaro Transfer would deliver water heavily contaminated with mining wastes, including arsenic, at a cost of $455 million. There is considerable doubt that the Peruvian government will be able to implement the necessary pollution controls on these mines. (World Water, June, 1982) It would make far more sense to carry out a comprehensive plan to increase the efficiency of water use in Lima.

U.N. Water Decade

There is no shortage of water problems around the globe which need to be addressed. Three-fifths of the people in the Third World countries do not have safe drinking water. About 15 million children under age five die each year primarily from water-related disease. Three-fourths of the people in developing countries have no sanitary facilities, not even latrines. Frequent use of lakes and streams for toilets compounds disease problems. The World Health Organization estimates that 80 percent of all sickness can be attributed to unsafe water or inadequate sanitation. The health and productivity impacts of polluted water and improper sanitation are enormous.

Water and sanitation problems are particularly acute in rural areas. While 75 percent of the urban population in developing countries has adequate drinking water, only 30 percent of the rural population does. About 53 percent of the urban population has adequate sanitary facilities but only 13 percent of the rural population does. Women and children are particularly hard hit by these problems: some have to walk over six miles just to obtain drinking water.

The United Nation's Water Decade established the goal of clean water and adequate sanitation for everyone by 1990. The World Bank estimated that the cost of achieving this goal would be $600 billion using Western-type sewer systems. This goal was revised to aim at 80 percent coverage of the rural population and to involve the use of more appropriate technology. The adjusted pricetag is still $300 billion, or $30 billion per year which contrasts with the $6-7 billion currently spent on such projects each year. Clearly there is much in the area of safe drinking water and adequate sanitation which could and should be done.

Environmental Assessments

The evidence which the Natural Resources Defense Council has assembled demonstrates that the multilateral development banks do a poor job of assessing the social and environmental consequences of large development projects, in part because they devote inadequate staff and budget to the review. Despite the agreement signed in 1980 by most of these banks to do substantive environmental reviews, some still do not even have procedures to implement this agreement.

The Inter-American Development Bank just mailed to the Environmental Policy Institute a copy of its recent publication The Inter-American Development Bank and the Environment (May, 1983) which boasts of the Bank's commitment to environmental protection. One of the projects and accompanying assessment cited is the Urra hydrocomplex on the Sinu River in Colombia. It is ironic that a citizens' group in Colombia, the Fundacion del Caribe, has written U.S. environmental groups seeking help because it believes that proper assessments and careful environmental and social planning are not and will not be done. The Inter-American Foundation has provided the Fundacion del Caribe with a grant to help monitor the situation.

Conclusions and Recommendations

The Environmental Policy Institute is concerned that the pace of large-scale water development projects is so great that by the end of the century most major river basins of the world will have been irrevocably altered. The environmental changes brought about by such massive development are so extraordinary that no one can be sure of the long-range consequences. We believe that far more caution should be exercised before making these irreversible and irretrievable commitments of resources.

We recommend that the Committee seek pledges from the multilateral development banks that 1) they will devote adequate staff and budget to carrying out thorough assessments of large development projects, including adequate procedures to implement the 1980 agreement and 2) that they refrain from funding projects which would have any of the following adverse consequences:

a) significantly increase the spread of diseases such as schistosomiasis, malaria, or onchocerciasis
b) displace indigenous peoples from their homes and destroy their cultures
c) inundate or convert national parks, world heritage sites, wildlife refuges, biosphere preserves, and the like
d) inundate or convert areas of scientific or educational importance
e) inundate or convert tropical forests
f) reduce biological diversity or eliminate endangered species
g) salinize or waterlog irrigable lands
h) significantly damage estuarine or ocean fisheries
i) create impoundments which fill with sediment in less than 100 years
j) have significant engineering or safety problems

If the banks are unwilling to make such a voluntary commitment, we urge the Committee to take more decisive action. This might involve an attempt to condition U.S. contributions to the banks or a curtailment of of U.S. contributions. While these measures may seem harsh, the impacts of large scale development projects on rural populations can be severe. If the banks are unwilling to adopt guidelines and procedures which prevent certain terrible consequences—a very reasonable request—then why should the U.S. be in the position of underwriting these results?

NATIONAL ENVIRONMENTAL ORGANIZATIONS

STATEMENT OF BRUCE M. RICH, NATURAL RESOURCES COUNCIL, INC., NATIONAL WILDLIFE FEDERATION, SIERRA CLUB, FRIENDS OF THE EARTH, IZAAK WALTON LEAGUE OF AMERICA, NATIONAL AUDUBON SOCIETY, AND THE ENVIRONMENTAL DEFENSE FUND

SEVENTH U.S. REPLENISHMENT OF IDA

Senator KASTEN. Next we will hear from Mr. Bruce Rich, the Natural Resources Defense Council.

Mr. Rich.

Mr. RICH. Thank you, Mr. Chairman. We appreciate very much the opportunity to appear before this subcommittee today concerning appropriations for the seventh U.S. replenishment of the International Development Association.

I am testifying on behalf of NRDC, and also on behalf of several other national environmental organizations with over 5.5 million members in the United States.

The national environmental organizations wish to express today for the first time before a congressional subcommittee their endorsement of and support for the U.S. replenishment of the International Development Association. Our support is based on the conviction that widespread poverty and environmental deterioration in large parts of the world are inextricably related, and on the conviction that sustainable development is not possible without sound management of natural resources.

My testimony will discuss briefly the interconnections between the alleviation of widespread poverty, natural resources management and sustainable economic development, and emphasize the critical role that IDA has in addressing these problems.

Before concluding, however, I shall emphasize the concern of the environmental organizations I represent that IDA and the World Bank need to take strong, concrete actions to implement their already existing official policy commitment to natural resources management. This is a matter of grave concern to the groups I represent since its continued neglect will risk, in our judgment, the long-term effectiveness of IDA's development activities, and call into question IDA's ability to implement its own official policies.

ENVIRONMENTAL STATUS OF NATIONS WORLDWIDE

In the poorest countries, where IDA is often the first and most important source of foreign assistance, people on the margin of existence are compelled to destroy the natural resources base on which future productivity depends. Sub-Saharan Africa, one of the two main regions for IDA assistance, already presents a profoundly frightening example of how far the vicious cycle of poverty and ecological degradation has gone.

According to estimates of the United Nations, 55 percent of the land area of the African continent and 25 percent of its population are now threatened by desertification. Not only in Africa, but all over the globe, from Nepal to Haiti, there are 1.5 billion people whose only fuel is wood, dung, or crop waste, and whose immediate physical existence is threatened by deforestation, erosion, desertification.

The answer to the problems of the hundreds of millions of most rural poor in the world's neediest countries is, of course, economic development, but development can only be sustainable if it is based on sound management and conversion of the natural resource base.

As my colleague has, I would like to emphasize the great interest that the United States has in ensuring that IDA effectively carries out its mandate. One condition of IDA's effectiveness is that it have adequate financial resources to do its job, but another condition of equal importance is that IDA finance development activities that don't undermine the longer-term sustainability and stability of the natural resource systems on which these activities are based.

WORLD BANK POSITION ON NATURAL RESOURCES AND ENVIRONMENT

In a number of statements and documents over the previous years, the World Bank has stated numerous times its official policy commitment to management of natural resources and the environment. These statements are discussed in some detail in my prepared statement, but the most important one is the 1980 U.N. declaration of environmental policies and procedures relating to economic development, signed by the President of the World Bank and the heads of nine other major multilateral development agencies. They pledged to undertake a number of very specific procedures and actions to ensure sound environmental management and to fund more natural resources management oriented projects.

As my colleague, Brent Blackwelder mentioned, the House Banking Subcommittee on International Development Institutions and Finance held special oversight hearings on the environmental aspects of multilateral bank funded projects last June. Testimony presented over 2 days raised serious questions about what the World Bank and other multilateral banks were really doing in the area of natural resource management.

WORLD BANK RESPONSE TO TESTIMONY

The World Bank prepared, at the request of the subcommittee and the Treasury Department, an extensive response to this testimony, which I have here. Regrettably, the response did not directly address or join, in our judgment, many of the most important and basic issues and questions that were raised at those hearings.

For example, questions were raised about whether the Bank had enough professionally trained people, either in its Office of Environmental Affairs or in other divisions, to adequately and competently address problems of natural resources and ecological management.

The Bank's response to the subcommittee and to the Treasury Department was, in effect, a nonresponse, and I will quote it, it is just one sentence, "The World Bank, with its Office of Environmental Affairs, is the oldest and largest, and most experienced institution dealing with these issues."

The testimony stated, for example, that the World Bank had a series of environmental checklists and guidelines, numbering hundreds of pages, but there were apparently no procedures or regulations to ensure that they were used or integrated into project design.

It was also pointed out that checklists were missing for some of the most important project lending sectors. For example, there was only one checklist for agricultural and rural development, and that was inadequate, yet agriculture and rural development accounted for nearly 40 percent of IDA lending in fiscal year 1983.

The World Bank's response to these concerns in its reply was the following, and I quote again:

> The World Bank has prepared the largest and most comprehensive series of guidelines of any development assistance agencies. Many are available in French, Spanish, and English. They are widely used by other development organizations throughout the world. Their systematic use and rigorous enforcement—I emphasize the next word—would be adequate to ensure that most development projects would not incur serious environmental, health, or social/cultural consequences.

This response acknowledges in a roundabout fashion that these guidelines are not systematically used or enforced, but there is no indication that the World Bank has any plans to do anything about the situation or that it is even a matter of concern. Moreover, there is a growing body of evidence that the sustainability of individual projects and whole sector policies is seriously hampered by inadequate consideration of natural resource and ecological management concerns.

In my prepared statement, I have cited two examples. One is a sector policy paper for fisheries management in the World Bank in which the environmental organizations I represent prepared an extensive critique. We pointed out that some of the most basic principles of sustainable fisheries management are not even mentioned in this document.

I think that it is important to note that in our meeting with the President of the World Bank, and other high level bank officials, there was a very blunt acknowledgment on their part that more needed to be done in this area.

I also cited in my statement an example of an individual project which had a negative rate of return mainly because of environmental reasons, yet in the post-project evaluation conducted by the World Bank, these environmental concerns were listed and described as factors beyond human control, when actually all that was needed was reforestation and watershed management in areas which eroded around the project.

In concluding, Mr. Chairman, the environmental organizations I represent believe that IDA's role and effectiveness is so important to the world and to U.S. interests that the Congress should strongly express, in report language accompanying the appropriations for the seventh U.S. IDA replenishment, its concern that IDA's effectiveness in carrying out its tasks is constrained by inadequate consideration of natural resources and environmental management.

In our judgment, such language should state the expectation of the Congress that IDA and the Bank will undertake specific concrete actions in the near future such as ones enumerated in the attached outline to our testimony, which remedy serious deficiencies in natural resources and environmental management which have been reliably identified as a matter of record.

In summary, it is difficult to understate the U.S. interest in promoting continued, increased effectiveness of IDA, and the effectiveness of IDA is seriously menaced by two threats—an inadequate U.S. replenishment, and inadequate attention in IDA projects to management of the natural resource base on which sustainable economic development indeed depends.

Thank you very much.

[The prepared statement of Mr. Rich follows:]

PREPARED STATEMENT OF BRUCE M. RICH

ON BEHALF OF

NATURAL RESOURCES DEFENSE COUNCIL, INC.
NATIONAL WILDLIFE FEDERATION
SIERRA CLUB
FRIENDS OF THE EARTH
IZAAK WALTON LEAGUE OF AMERICA
NATIONAL AUDUBON SOCIETY
ENVIRONMENTAL DEFENSE FUND

I. Introduction

Mr. Chairman, I appreciate very much the opportunity to appear before this Subcommittee concerning appropriations for the 7th U.S. replenishment of the International Development Association (I.D.A.). I am Bruce M. Rich, an attorney with the International Project at the Natural Resources Defense Council, Inc. (NRDC). I am testifying on behalf of seven national environmental organizations: the Natural Resources Defense Council, Inc., the National Wildlife Federation, the Environmental Defense Fund, Friends of the Earth - U.S., the Sierra Club, the Izaak Walton League of America, and the National Audubon Society. Together, these organizations have over five and a half million members and supporters in the United States. The Natural Resources Defense Council has over 40,000 members and the National Wildlife Federation 4.5 million members nationwide. The Environmental Defense Fund has 47,000 members, and Friends of the Earth - U.S., 35,000. The Sierra Club has 380,000 members, the Izaak Walton League of America 45,000, and the National Audubon Society one half million members.

These national environmental organizations wish to express their endorsement of U.S. replenishment of the International Development Assocation. The environmental organizations strongly urge a 7th U.S. I.D.A. replenishment which at the very least would not reduce I.D.A's resources in real terms. This would mean an annual U.S. contribution of one billion dollars a year for the next three years.

Our support is based on the conviction that widespread poverty and environmental deterioration in large parts of the developing world are inextricably related and that sustainable economic development is not possible without sound management of natural resources and biological systems. I.D.A. has a pivotal and crucial - indeed, perhaps the crucial - role within the international system in dealing with these momentous problems.

In past hearings before this Subcommittee, the environmental organizations have vigorously criticized the environmental performance of the World Bank and the other multilateral development banks, but always as constructive supporters of what the banks are trying to accomplish. Our criticism - and our support - is based on the finding that much more multilateral assistance with increased attention to environmental management is necessary to begin to address the overwhelming economic and natural resources problems that plague a large part of our planet.

My statement will discuss the interconnection between the alleviation of widespread poverty, natural resources management and sustainable economic development, and then review relevant U.S. foreign assistance policy as set out in multilateral and bilateral aid legislation. The testimony will emphasize the central and critical role of I.D.A. in addressing development problems to which our foreign assistance legislation gives high priority and articulate the important interests the U.S. has at stake in ensuring I.D.A.'s effectiveness.

Before concluding, I shall emphasize the concern of the environmental organizations that I.D.A. and the World Bank need to take strong, concrete actions to implement their official policy commitment to natural resources management. This is a matter of the gravest concern for the groups I represent since its continued neglect will risk, in our judgment, the long term effectiveness of I.D.A.'s activities; call into question its ability and will to implement its own policies; and undermine the basis of the support the environmental groups wish to express for I.D.A. today.

We wish to make clear, however, our conviction that an inadequate U.S. I.D.A. replenishment will pose the gravest and most immediate risks of all by increasing the probability that hundreds of millions of human beings will continue to destroy for short-term survival the natural resource base on which their long-term sustenance - and our long-term security - depend.

Thus, it is urgent that the Congress authorize a U.S. replenishment that will enable I.D.A. to do its job; and that the Congress, in accompanying report language, strongly express its concern that the World Bank undertake actions to remedy reliably documented and demonstrated deficiencies that contradict its own policy commitments concerning management of natural resources and the environment.

II. Poverty, Natural Resources Management and Sustainable Development

The gravest and most widespread forms of global environmental deterioration are at the same time underlying causes and consequences of the poverty of hundreds of millions of human beings. In the poorest countries -- where I.D.A. is often the first and most important source of foreign assistance -- people on the margin of existence are compelled to destroy the resource base on which future productivity depends. Poverty, in conjunction with, and as as a result of, population growth and skewed economic and social structures has led to massive deforestation, erosion and desertification in large areas of the planet. This ongoing destruction of the carrying capacity of the earth's life-supporting biological systems creates conditions that result in still greater poverty. The four principal biological foundations of the global economy - forests, croplands, grasslands, and fisheries - are under severe and increasing pressure. In many parts of the world - especially the poorest - poor land use is destroying the regenerative and sustainable capacity of the environment.

Sub-Saharan Africa - one of the two main regions for I.D.A. assistance - already presents a profoundly frightening example of how far the vicious cycle of poverty and ecological degradation has gone. According to estimates of the United Nations, 55% of the land area of the African continent and 25% of its population are now threatened by desertification. Africa's population is growing at a rate which cannot be sustained by its resource base: its population of 430 million will reach 800 million by the turn of the century. As a result, more and more marginal land is cleared and overgrazed; the desert is advancing both north and south at a rate of 100,000 hectares a year. In almost all of sub-Saharan Africa - 19 countries - the average daily calorie intake is below the level to meet average daily minimum physiological requirements. Not only in Africa, but all over the globe - from Nepal to Haiti - there are 1.5 billion people whose only fuel is wood, dung or crop wastes and whose immediate physical existence is threatened by deforestation, erosion and desertification.

In the words of the World Conservation Strategy,1/ "For all these people conservation is the only thing between them and at best abject misery, at worst death."

1/ World Conservation Strategy, prepared by the International Union for the Conservation of Nature and Natural Resources (IUCN) with the assistance of the United Nations Environmentl Programme (UNEP) and the World Wildlife Fund (WWF), in collaboration with the food and Agriculture Organization of the United Nations (FAO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

The answer to the problems of the hundreds of millions of mostly rural poor in the world's neediest countries is, of course, economic development targeted to remedy their precarious situation.

But development can only be sustainable if it is based on sound management and conservation of its natural resource base. The President of the International Development Association reaffirmed this himself in a speech at the beginning of his tenure: ". . . in order to be sustainable, development must include vigorous and studied attention to resource management." "For sustainable development and wise conservation are, in the end, mutually reinforcing - and absolutely inseparable - goals."[2/]

III. Guiding Principles of U.S. Foreign Assistance Policy Include Basic Human Needs, Targeting the Needy, Environment and Natural Resources

Over the past decade the U.S. Congress has enacted legislation which repeatedly and very explicitly has targeted bilateral and multilateral U.S. foreign assistance for programs that address the basic human needs of the needy and poor rural majority in developing countries. In addition, U.S. foreign assistance policy has increasingly focused on one of the most critical factors underlying the plight of the poor in the developing world: deterioration of the environment and mismanagement of natural resources.

[2/] Clausen A.W., "Sustainable Development: The Global Imperative," Fairfield Osborn Memorial Lecture, 1981.

In Section 102 of the Foreign Assistance Act, the Congress set forth the principles which govern U.S. foreign assistance, stating that

> "United States development assistance should focus on critical problems in those functional sectors which affect the lives of the majority of the people in the developing countries; food production and nutrition; rural development and generation of gainful employment; population planning and health; environment and natural resources . . . ."
> (Foreign Assistance Act of 1961, as amended, Section 102(b)(5))

The same Section states that "participation of the United States in multilateral institutions shall also place appropriate emphasis on these principles." (Foreign Assistance Act of 1961, as amended, Section 102(a), emphasis added.)

Section 128 of the Foreign Assistance Act of 1961, as amended, directed the President in fiscal year 1983 to attempt to use "not less than 40%" of bilateral economic assistance funds "to finance productive facilities goods, and services which will expeditiously and directly benefit those living in absolute poverty (as determined under the standards for absolute poverty adopted by the International Bank for Reconstruction and Development and the International Development Association)."

Section 1102 of the International Financial Institutions Act of 1977, as amended, directed the Secretary of the Treasury to consult with the representatives of other member countries of the multilateral development banks

> "for the purpose of establishing guidelines within each of these institutions which specify that, in a manner consistent with the purposes and charters of these institutions, a specified proportion or annual lending by each institution shall be designed to benefit needy people, primarily by financing sound, efficient, productive, self-sustaining projects designed to benefit needy people in developing countries, thus helping poor people improve their conditions of life."

According to Section 1102(b), 'needy people' means those people living in "absolute" or "relative" poverty as determined by the I.D.A. and the I.B.R.D.

In addition, several amendments to the Foreign Assistance Act over the past seven years have authorized and given increasing priority to bilateral assistance for programs to deal with environmental and natural resources problems, especially with respect to deforestation, loss of genetic diversity, watershed management and fuel wood shortages (Foreign Assistance Act of 1961, as amended, Sections 118, 119, and 103(b)(3)).

In Section 118 of the Foreign Assistance Act, Congress declared that "It is . . . in the economic and security interest of the United States to provide leadership both in thoroughly reassessng policies relating to natural resources and the environment, and in cooperating extensively with developing countries in order to achieve environmentally sound development." Section 118 also set forth requirements for environmental assessment of AID-funded projects. As a result of this policy, AID has become the undisputed leader among bilateral agencies in incorporating environmental concerns into project design, and in funding environmental and conservation-related projects.

Clearly, then, one of the most important principles governing both U.S. bilateral and multilateral assistance in recent years is alleviating the plight of the poorest of the world's poor.

The Congress has also determined - and acted on - the finding that natural resources management is not an adjunct to promoting economic development, but a critical problem on whose resolution sustainable, successful development depends.

There is no institution - bilateral or multilateral - which through its mandate and because of its potential role is better placed to address these challenges than the International Development Association.

IV. Importance of I.D.A. and the U.S. Stake in its Effectivess

A. Importance of I.D.A

I.D.A. is in many respects the most important of all development institutions because it is by far the largest source of development assistance for the poorest countries on earth. These countries, located mainly in South Asia (including India and China) and sub-Saharan Africa, contain more than half of humanity.

For the sixth I.D.A. replenishment the U.S. National Advisory Council on International Monetary and Financial Policies submitted a special Report to the Congress in which it noted that

> "I.D.A. lending is designed to reach the poorest countries in which live most of the 800 million persons who exist in absolute poverty. This existence is characterized by malnutrition, illiteracy, disease, low life expectancy and squalor. While 90 percent of I.D.A.'s resources go to countries with average per capita incomes below $300, the median per capita income of I.D.A. borrowers is only $200. This results because wealth is generally concentrated in the urban areas while the majority of the people in recipient countries are rural. Poverty in I.D.A. countries is also characterized by the past neglect of measures to improve the quality of the human resources of these countries. When the degree of rural poverty and the poor human resource base are added to the generally poor physical resource base of I.D.A. borrowers, the enormous magnitude and urgency of the poverty problem becomes clear. Measures to alleviate poverty in I.D.A. countries will require major efforts in the rural areas. External assistance on appropriate terms can play a vital and catalytic role in this effort."

Since then, the number living in absolute poverty has increased. At the same time, I.D.A.'s real resources have decreased, principally due to U.S. dilatoriness in appropriating in a timely fashion the amounts it had pledged for the 6th replenishment.

The poorest countries that are I.D.A. recipients are also the nations suffering from the greatest environmental stress and deterioration. Haiti and Nepal, for example, besides having per capita incomes among the lowest on earth, are also often cited as case studies of extreme deforestation and soil erosion. Large parts of sub-Saharan Africa are threatened by desertification to a large degree caused by deforestation and overgrazing. Population and resource use pressures in India and China have kept these countries perilously close to the brink of ecological and economic disaster.

The money I.D.A. disburses has an effect that is much greater than mere dollar amounts would indicate, since in many instances it is the first and principal source of outside economic assistance and technical advice in the neediest countries in the world. For one thing, I.D.A. finances on the average only 44% of the cost of projects, the rest of funding coming through co-financing arrangements with local or international agencies. I.D.A. serves as a magnet or catalyst to promote additional foreign assistance and investment in the very countries that are most in need of such assistance and investment. I.D.A.'s longer-term effectiveness is especially enhanced through project components with a large multiplier effect such as planning, training, research, technology transfer, and other forms of institution building. Finally, I.D.A. policy dialogue with borrowers can have considerable effect on their development priorities and policies.

B. The U.S. Stake in I.D.A.'s Effectiveness

In a world that is more and more interdependent - economically, ecologically, and politically - it is difficult to understate the U.S. stake in both I.D.A.'s continued and improved effectiveness.

I.D.A. is potentially an optimal vehicle for implementing two of the major, and interconnected guiding principles of bilateral and multilateral (c.f. Section 102, Foreign Assistance Act of 1961, as amended) foreign assistance policy: targeting the basic human needs of the poorest people in the poorest countries, and management and conservation of their environment and natural resources.

I.D.A. was established, in fact, in the words of the 1980 Special Report to the President and the Congress of the National Advisory Council on International Monetary and Financial Policies, "largely as the result of international initiatives by the United States undertaken against a background of strong expressions of support within the Congress, in particular Senate Resolution 264, 85th Congress, Second Session."

Ensuring the economic and ecological stability of I.D.A. countries is a prime U.S. strategic interest. Seven of the 10 top I.D.A. recipients border on or near the Indian Ocean and have been subject to the efforts of other nations to expand their influence in ways directly opposed to U.S. and Western interests. Our trade and economic future is becoming increasingly linked to the fate of I.D.A. recipients, either as sources of raw materials or as potential markets.

Extreme poverty and ecological deterioration are part of the same syndrome of underdevelopment in the poorest countries. The resultant endemic social and political instability will present in many cases, sooner or later, a threat to U.S. economic and political security. When we read of the cost of U.S. assistance to El Salvador or of the expense of dealing with illegal refugees from Haiti, we should also remember that these are the two most eroded and deforested countries in the Western Hemisphere. Haiti, in particular, is the poorest and most deforested country in the Hemisphere - and a recipient of I.D.A. assistance.

It would be ironic, and almost absurd for the Congress to authorize large foreign aid programs of an emergency nature for Central America and the Caribbean while simultaneously contributing to the risk of future instability in other regions by crippling I.D.A.'s effectiveness.

Moreover, U.S. replenishment of I.D.A. is extremely cost-effective in comparison to bilateral aid, since every dollar the U.S. puts in will result in approximately four dollars of I.D.A. assistance and nearly ten dollars of total financing being made available for projects.

The U.S. Treasury came to the conclusion in a 1982 study[3] that "continued U.S. participation in the MDBs is justified by a fundamental interest in a more secure and stable world." This statement is all the more true for I.D.A., which focuses its assistance on many of the countries where the risks of future insecurity and instability are greatest.

V. Urgency of the Need for I.D.A. to Adequately Implement Its Policy Commitment to Natural Resources and Environmental Management

The environmental organizations have underscored in this testimony the critical position that I.D.A. occupies in the international system and the great interest the U.S. has in assuring that I.D.A. effectively carry out its mandate.

One condition of I.D.A.'s effectiveness is that it have adequate financial resources to do its job. Another condition - and of as crucial importance to I.D.A.'s effectiveness as an adequate 7th replenishment - is that I.D.A.-financed development activities do not undermine the longer-term sustainability and stability of the natural and social systems on which they depend.

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[3] "United States Participation in the Multilateral Development Banks in the 1980's," Department of the Treasury, 1982.

A. *The Official Policy Commitment of I.D.A. to Sound Management of Natural Resources and the Environment*

Over the years, the World Bank has been a leader among multilateral agencies in making policy statements and commitments at the highest level to the principle that economic development cannot be sustainable without, in words uttered by I.D.A.'s president in 1981, "vigorously and studied attention to resource management." This is because, again in the words of the Bank's president, "*sustainable development and wise conservation are, in the end, mutually reinforcing - and absolutely inseparable - goals*." (emphasis added). Similar words were spoken by I.D.A.'s previous president, who took the pathbreaking initiative of hiring an environmental adviser for the Bank two years before the 1972 Stockholm Conference on the Human Environment. Only one year after the Stockholm Conference, the Bank officially established an Office of Environmental Affairs (now known as the Office of Environmental and Scientific Affairs). In 1980 the former president of the Bank publicly endorsed the World Conservation Strategy, a major international development policy statement prepared with the assistance and collaboration of three United Nations agencies and two international non-governmental conservation organizations. The strategy emphasizes that conservation is a *prerequisite* and *sina qua non* of sustainable, rational economic development rather than one objective among, or equivalent to, others. It is "*that aspect of management which ensures that utilization is sustainable*." (emphasis added).

In February 1980, the President of the World Bank along with nine other heads of multilateral development agencies signed a joint United Nations "Declaration of Environmental Policies and Procedures Relating to Economic Development." Each institution pledged to endeavor, to the best of its ability, to, among other things:

> "1. *Institute* procedures for systematic examination of all development activities, including policies, programs and

> projects, under consideration for financing to ensure that appropriate measures are proposed . . ." concerning natural resources and environmental management [i.e., "the principles and recommendations of the (1972 Stockholm) United Nations Conference"];
>
> "2. Enter into cooperative negotiations with governments and relevant international organizations and agencies, to ensure integration of appropriate environmental measures in the design and implementation of economic development activities;
>
> "3. Provide technical assistance, including training, on environmental matters to developing countries, at their request, thus developing their indigeneous capacity, and facilitating technical cooperation between developing countries;
>
> "4. Give active consideration and, if appropriate, support project proposals that are specifically designed to protect, rehabilitate, manage or otherwise enhance the human environment, the quality of life, and resources thereto related;
>
> "5. Initiate and/or otherwise cooperate in research and studies leading to improvement of project appraisal, implementation and evaluation methodologies, including cost-benefit analysis, of environmental protection measures . . ."

The full text of the Declaration is reproduced in an annex to this statement.

Most recently, on February 24th of this year, representatives of the environmental organizations on behalf of whom I appear today met with the President of the Bank and other high level Bank officials. We discussed our support for the Seventh I.D.A. Replenishment before the Congress and expressed our concern over the Bank's inadequate implementation of its official commitment to environmental and natural resources management.

We were pleased to be able to report back to our members that the Bank acknowledged at this meeting that its staff needs to focus more on natural resource management issues. The Bank strongly expressed the need for a direct, broadened and in-depth dialogue with our organizations, starting with a series of meetings with the Bank's vice-presidents. We were also encouraged by the Bank's acknowledgment that more attention needs to be given to natural resources and environmental management in its policy documents.

B. Serious and Growing Concern of National Environmental Organizations with Evidence of I.D.A.'s Inadequate Management of Natural Resources and the Environment

Last June, this Subcommittee held special oversight hearings on the environmental aspects of MDB-financed projects. Testimony presented over two days raised serious questions about what the World Bank and other MDBs were doing in the area of natural resources management and consideration of the ecological and sociological conditions necessary for the survival of tribal peoples. The World Bank prepared an extensive response to the testimony. Regrettably, this response did not directly address or join, in our judgment, many of the issues and questions raised at the hearings. For example, questions were raised about whether the Bank had enough professionally trained people, either within the Office of Environmental and Scientific Affairs or in other divisions, to adequately and competently address problems of natural resources and ecological management. It was pointed out that the staff of the Office of Environmental and Scientific Affairs appeared to be impossibly small -- especially with respect to critical pre-project review -- to carry out the enormous responsibilities that the Bank ascribes to it. Testimony also pointed out that there is no evidence that staff in the regions and in the Bank's Operations Evaluation Department have sufficient professional training or experience to systematically deal with ecological concerns.

The Bank's response to the staffing question was, in effect, a non-response: " . . . the World Bank, with its Office of Environmental Affairs, is the oldest, largest and most experienced institution dealing with these issues . . . "

The testimony pointed out that

> "The World Bank has prepared a series of environmental checklists and guidelines, but there are no procedures and regulations to ensure their systematic use and early integration into project design. Even if the existing optional guidelines were

> systematically applied, they would be inadequate."

One of the reasons why the guidelines, even if used, would be inadequate, is that almost none exist for the Bank's - and I.D.A.'s - single biggest lending sector: Agriculture and Rural Development. The single checklist that has been prepared in this sector concerns pesticide use, and it does not even mention basic and widely accepted technologies such as integrated pest management. Projects in agriculture and rural development accounted for nearly 40% of I.D.A. credits in the Bank's Fiscal Year 1983.

The Bank's response to these concerns was the following:

> "The World Bank has prepared the largest and most comprehensive series of guidelines of any of the development assistance agencies. These guidelines are regularly reviewed, and are updated and expanded as warranted. Many of them are available in French, Spanish, and English. They are widely used by other development organizations throughout the world. Their systematic use and rigorous enforcement would be adequate to ensure that most development projects would not incur serious environmental, health, or sociocultural consequences." (emphasis added).

Although this response acknowledges in a roundabout fashion that the guidelines are not systematically used and enforced, there is no indication that the Bank has any plans to do anything about the situation or is even concerned about it. The almost complete lack of ecological guidelines for the single most important sector is simply ignored in the response, which implies that if the existing guidelines were only used, all would be well.

Staffing and procedures, of course, are only means to ensure sound projects and policies. An institution such as the Bank can rightfully point out that in the end its internal administrative priorities and commitments should not be put into question without evidence of inadequacies in the project and policy area.

But there is a growing body of evidence that the sustainability of individual projects and whole sector policies is seriously hampered by the Bank's inadequate consideration of natural resources and ecological concerns.

I shall cite just two illustrative examples from some of the research the environmental organizations have been gathering: one, a project, the other, a Bank Policy Paper for an entire sector.

In a book pubished by the World Bank in 1982, "I.D.A. in Retrospect: The First Two Decades of the International Development Association," the Bank describes in some detail the conclusions of a 1980 post-project evaluation conducted by the Operations Evaluations Department. The project - an agriculture and irrigation scheme designed to increase rice production around Lake Alaotra in Madagascar - was a failure with a probable negative rate of return.

Let me state first of all that it is to the Bank's credit - and one very important sign of the Bank's institutional commitment to improving its performance - that it conducts independent evaluations and occasionally makes negative results public, as in this case. Unfortunately, as this project and project evaluation show, lack of expertise in natural resource management can undermine not only projects, but the Bank's ability to learn from, or even recognize the nature of its mistakes. The evaluation cites "severe technical difficulties in managing difficult peat soils" along with sociological difficulties as the major factors responsible for failure. The "difficulties in managing the peat soils" were compounded by inadequate functioning of the project's irrigation system. A close reading of the nature of the soil management and irrigation problems reveals that they are linked to what the evaluation report calls "Factors Beyond Human Control." "Longstanding erosion in the hills near the lake," the evaluation states, "resulted in flooding during the monsoon, but the soils retained very little moisture in the dry season. Rivers and canals silted up, making irrigation ineffective."

Mr. Chairman, it has been common knowlege of large parts of humanity for at least 2,500 years that upland erosion, flooding and siltation of downstream rivers and irrigation systems are not only not "beyond human control" but are largely man made and can be at least partly controlled by watershed management and reforestation.

It is extremely disturbing that a Bank post-project evaluation conducted in 1980 and publicized in 1982 should so completely ignore the key role that widely known and tested resource mangement techniques could have in preventing similar project failures.

I am submitting for the record the full text of the excerpts the Bank has published from the Lake Alaotra project evaluation.

The other example I wish to cite is the World Bank Fishery Sector Policy Paper, issued in December 1982. Bank sector policy papers have great importance for the sustainable management of the natural resources, on which successful long-term economic development depends. This is not only because of the amounts disbursed in Bank and I.D.A. lending, but, more importantly, because of the policy influence the Bank exercises in borrower countries. Thus, the organizations I represent find it extremely disturbing that the paper fails to mention key and widely accepted principles of fisheries management or refers to them only in an indirect or overly general way. The crisis in world fisheries caused by widespread overexploitation is not addressed, and widely used fishery management concepts such as maximum sustainable yield and an ecosystem conservation standard are not mentioned.

More importantly, the Fishery Policy Paper expresses no clearly stated commitment on the Bank's part to taking specific actions in its project, country and sector planning, and policy dialogue with member governments to ensure that ecologically sound management measures needed to assure sustained fishery production are effectively carried out.

The paper was prepared by the Bank's Agriculture and Rural Development Department and reflects an apparent lack of any substantial input or review by marine biologists and fisheries management experts. Accompanying my statement is a letter from eight national and international environmental organizations to the President of the Bank requesting a revision of the Fishery Policy Paper so that it will incorporate the most basic principles of sustainable management. A detailed critique of the Fishery Paper, with specific references, is also attached.

During our meeting with the President and other high level officials of the Bank last February 24th, we were pleased to hear a forthright acknowledgment on the Bank's part that the Fishery Sector Policy Paper was seriously inadequate, and that our comments were welcomed as constructive suggestions which the Bank will actively consider implementing. One high level Bank official stated outright that the Fishery Paper was "clearly" a failure in its treatment of resources management and that he "subscribe(d) to the suggestions [we] made to the Bank."

Thus, we look forward to some indication of specific actions the Bank plans to take to remedy the serious deficiencies it acknowledges to exist in the Fishery Paper. Up to now, however, we have not received a response from the Bank which reflects the substance of the comments which were made to us on this matter.

C. Need for a Congressional Expression of Concern to Accompany the I.D.A. Replenishment

In this testimony, I have only been able to give isolated examples of what the environmental organizations perceive to be widespread neglect by the Bank of crucial natural resource and ecological concerns. The Bank in its responses so far has done nothing to either directly answer many of the questions we have raised, or give substantive, factual indications and evidence of concrete actions to remedy deficiencies.

We have prepared a brief "Outline of Actions to Bring About Improved Natural Resources Management and Conservation in World Bank Programs and Projects," which also accompanies this statement. Many of these suggested actions directly reflect the specific pledges cited earlier in this section in excerpts from the 1980 "Declaration on Environmental Policies and Procedures Relating to Development" signed by the President of I.D.A.

We believe that I.D.A's role and effectiveness is so important to the World and to U.S. interests that the Congress should strongly express, in the report language accompanying appropriations for the 7th U.S. I.D.A. replenishment, its concern that I.D.A.'s effectiveness in carrying out its tasks is constrained by inadequate consideration of natural resources and environmental management. In our judgment, such language should state the expectation of the Congress that I.D.A. and the Bank will undertake forthwith, specific, concrete actions, such as the ones enumerated in the attached "Outline," to remedy serious deficiencies in natural resources and environmental management which have been reliably identified as a matter of record.

Our recent meeting with the President of the Bank and other high level officials was encouraging in that the Bank expressed its strong desire for a continuing dialogue on these concerns, starting with a series of meetings to be arranged with the Bank's vice-presidents. We were disturbed, however, by indications at the meeting that the main issue at stake for the Bank was more one of our "perception" of what the Bank was doing rather than a real question of substance. Our statements last June before the House Banking Subcommittee on International Development Institutions and Finance and parts of the Bank's response indicate, however, that there are glaring, irrefutable inconsistencies between the Bank's official environmental policy statements and its actual performance in both project and sector work.

It is not unusual for large institutions such as the Bank to encounter delays and bureaucratic obstacles to fully implementing sincere policy commitments made over several years at the highest level. The environmental organizations I represent today think that the Bank's pledges on environmental policies and procedures relating to development represent a real commitment to concrete actions, since otherwise the Bank's central mission of sustainable development will be tragically undermined.

We believe in the proposition that "sustainable development and wise conservation are not only mutually reinforcing, but absolutely inseparable goals." Thus, continued evidence of systematic absence of effective measures to implement this principle in the Bank in the future will lead us to have serious doubts about that institution's long-term effectiveness and create pressures within our constituencies to seriously question the value of U.S. financial support for I.D.A. and the I.B.R.D.

VI. CONCLUSION

The poverty of nearly half of humanity in the poorest nations may be, after nuclear war, the single greatest threat to the economic, ecological and political future of the globe. The destruction of life-sustaining ecological systems for short-term survival is one of the most important effects and causes in the vicious circle of increasing impoverishment in which many of the neediest nations are trapped.

The mandate and role of the International Development Association make it the unique and indispensable linchpin of all international efforts to address these problems, on which the fate of the world literally depends. No U.S. bilateral program can begin to match its potential cost-effectiveness, since every dollar the U.S. invests in I.D.A. will eventually result in nine extra dollars invested in in-country projects.

Increased contributions to I.D.A. today may save the U.S. a great deal by reducing the need for expensive and less efficient emergency bilateral aid programs in other parts of the world tomorrow.

Thus, it is difficult to understate the U.S. interest in promoting the continued and increased effectiveness of I.D.A.

The effectiveness of I.D.A. is seriously menaced by two threats: an inadequate 7th U.S. replenishment, and inadequate attention in I.D.A. projects to studied and vigorous management of the natural resource base, on which sustainable development depends.

The environmental organizations strongly endorse a 7th U.S. replenishment, which, as a bare minimum, will not gravely reduce I.D.A.'s resources in real terms. This would mean an annual U.S. contribution of at least one billion dollars a year for the next three years. The Administration's request of $750 million a year -- not to speak of a lesser appropriation -- indicates a tragic shortsightedness concerning the underlying causes of important long-term threats to global and U.S. security.

The environmental organizations wish to recall that a U.S. replenishment of one billion dollars a year would represent an investment for this county of approximately 50 cents a year in each person living in the neediest countries, or an annual investment by each U.S. citizen of roughly 5 3/4 cents in the human welfare and ecological future of half the planet. Our decendants may not forgive us if we decide, with all the information and evidence we have available in the late 20th century, that this is too much to pay.

We think it is equally essential that the Congress express its concern that inadequate measures by the World Bank to deal with the ecological deterioration which forms a link in the vicious cycle of poverty will tragically undermine I.D.A.'s mission and raise serious doubts about the Bank's will and ability to implement its own policy commitments.

Outline of Actions to Bring About Improved Natural Resources Management and Conservation in World Bank Programs and Projects

I. INCREASE STAFFING

   A. Add qualified staff to the Office of Environmental and Scientific Affairs (OESA) which does not have adequate personnel to handle its current responsibilities.

   B. Increase qualified personnel trained in natural resources management in the regional offices and in both country projects and programs departments.

   C. Streamline procedures to ensure that qualified experts are hired out of project budgets when OESA or regional office staff identify the need for natural resources specialists.

II. GIVE GREATER PRIORITY TO FINANCING SOUND NATURAL RESOURCES MANAGEMENT PROJECTS AND PROJECT COMPONENTS SUCH AS:

   A. Watershed management for all projects that depend on it, including hydroelectric and agricultural schemes.

   B. Small-scale forestry, including fuelwood lots, village forestry and agroforestry.

   C. Restoration of productivity of lands degraded by deforestation, waterlogging and salinization.

   D. Population and family planning.

   E. Sanitation and public health.

   F. Inclusion of forestry and integrated pest management in agriculture and rural development projects when feasible, with particular attention to safeguards to prevent pesticide misuse.

   G. Conservation of wetlands, estuaries, mangrove swamps, coral reefs and other important fish breeding habitats in all projects affecting coastal zones.

   H. Conservation of pristine natural areas in national parks and other protected areas to prevent the loss of genetic diversity and preserve the future biological capital of borrower countries.

   I. Investment in alternative energy such as solar and geothermal projects.

III. ENSURE GREATER ATTENTION TO LONG-TERM NATURAL RESOURCES CONSERVATION AND MANAGEMENT IN ECONOMIC AND SECTOR POLICY AND RESEARCH

A. Include natural resources expertise in preparation of sector policy papers, country economic memoranda, CPPs and other policy documents.

B. Incorporate natural resources concerns and expertise in each stage in the Bank's policy dialogues with borrowing countries.

C. Conduct operational research to revise the analytical framework used to calculate benefits and costs of use and management of natural resources.

IV. IMPROVE INSTITUTIONAL INCENTIVES FOR GREATER ATTENTION TO SOUND NATURAL RESOURCES MANAGEMENT

A. Add, as a significant factor in evaluation of job performance of Bank staff and in their career advancement, the demonstration of full consideration of natural resources conservation and management.

B. Require Vice Presidents of the Regions and of the Operations Policy Staff (OPS) to prepare regular reports (e.g., bi-monthly) on their progress in implementing all of the above.

DECLARATION OF ENVIRONMENTAL POLICIES AND PROCEDURES RELATING TO ECONOMIC DEVELOPMENT

WHEREAS, ECONOMIC AND SOCIAL DEVELOPMENT IS ESSENTIAL TO THE ALLEVIATION OF MAJOR ENVIRONMENTAL PROBLEMS BY PROVIDING FOR AN INTEGRAL RELATIONSHIP BETWEEN SOCIETIES AND THEIR ENVIRONMENT, REALIZING ALSO THAT ECONOMIC DEVELOPMENT AND SOCIAL GOALS SHOULD BE PURSUED IN SUCH A MANNER AS TO AVOID OR MINIMIZE ENVIRONMENTAL PROBLEMS PECULIAR TO IT,

RECOGNIZING THAT, THE MAJOR ENVIRONMENTAL PROBLEMS OF THE DEVELOPING COUNTRIES ARE NOT NECESSARILY OF THE SAME NATURE AS THOSE OF DEVELOPED COUNTRIES IN THAT THEY ARE PROBLEMS WHICH OFTEN REFLECT THE IMPACTS OF POVERTY WHICH NOT ONLY AFFECTS THE QUALITY OF LIFE BUT LIFE ITSELF,

CONVINCED, THAT IN THE LONG RUN ENVIRONMENTAL PROTECTION AND ECONOMIC AND SOCIAL DEVELOPMENT ARE NOT ONLY COMPATIBLE BUT INTERDEPENDENT AND MUTUALLY REINFORCING,

ACKNOWLEDGING, THAT THE NEED FOR ENVIRONMENTALLY SENSITIVE AND RESPONSIBLE DEVELOPMENT HAS BECOME MORE IMPORTANT AND URGENT IN LIGHT OF INCREASING POPULATION AND CONCOMITANT PRESSURES ON THE EARTH'S RESOURCES AND LIFE-SUPPORTING ECOLOGICAL SYSTEMS IN SOME AREAS,

ACKNOWLEDGING, THE SOVEREIGN RIGHT OF GOVERNMENTS TO DETERMINE THEIR OWN PRIORITIES AND DEVELOPMENT PATTERNS,

RECALLING, THAT THE STATES WHICH ADOPTED THE DECLARATION OF THE UNITED NATIONS CONFERENCE ON THE HUMAN ENVIRONMENT (STOCKHOLM, 1972) STATED THEIR COMMON CONVICTION (PRINCIPLE 25) THAT THEY WILL ENSURE THAT THE INTERNATIONAL ORGANIZATIONS PLAY A CO-ORDINATED, EFFICIENT AND DYNAMIC ROLE IN THE PROTECTION AND IMPROVEMENT OF THE ENVIRONMENT, CONSIDERING, FURTHERMORE, THAT INTERNATIONAL DEVELOPMENT ASSISTANT INSTITUTIONS HAVE, ALONG WITH THEIR MEMBER GOVERNMENTS, A RESPONSIBILITY TO ENSURE THE SUSTAINABILITY OF THE ECONOMIC DEVELOPMENT ACTIVITIES FINANCED BY THEM,

THEREFORE, THE UNDERSIGNED DECLARED THAT THEY:

I. REAFFIRM THEIR SUPPORT FOR THE PRINCIPLES AND RECOMMENDATIONS FOR ACTION OF THE UNITED NATIONS CONFERENCE

II. WILL, TO THE BEST OF THEIR ABILITIES, ENDEAVOUR TO:

1. INSTITUTE PROCEDURES FOR SYSTEMATIC EXAMINATION OF ALL DEVELOPMENT ACTIVITIES, INCLUDING POLICIES, PROGRAMMES AND PROJECTS, UNDER CONSIDERATION FOR FINANCING TO ENSURE THAT APPROPRIATE MEASURES ARE PROPOSED FOR COMPLIANCE WITH SECTION I ABOVE;

2. ENTER INTO CO-OPERATIVE NEGOTIATIONS WITH GOVERNMENTS AND RELEVANT INTERNATIONAL ORGANIZATIONS AND AGENCIES, TO ENSURE INTEGRATION OF APPROPRIATE ENVIRONMENTAL MEASURES IN THE DESIGN AND IMPLEMENTATION OF ECONOMIC DEVELOPMENT ACTIVITIES;

3. PROVIDE TECHNICAL ASSISTANCE, INCLUDING TRAINING, ON ENVIRONMENTAL MATTERS TO DEVELOPING COUNTRIES, AT THEIR REQUEST, THUS DEVELOPING THEIR INDIGENEOUS CAPACITY, AND FACILITATING TECHNICAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES.

4. GIVE ACTIVE CONSIDERATION AND, IF APPROPRIATE, SUPPORT PROJECT PROPOSALS THAT ARE SPECIALLY DESIGNED TO PROTECT, REHABILITATE, MANAGE OR OTHERWISE ENHANCE THE HUMAN ENVIRONMENT, THE QUALITY OF LIFE, AND RESOURCES THERETO RELATED;

5. INITIATE AND/OR OTHERWISE CO-OPERATE IN RESEARCH AND STUDIES LEADING TO IMPROVEMENT OF PROJECT APPRAISAL, IMPLEMENTATION AND EVALUATION METHODOLOGIES, INCLUDING COST-BENEFIT ANALYSIS, OF ENVIRONMENTAL PROTECTION MEASURES;

6. SUPPORT THE TRAINING AND INFORMING OF OPERATIONAL STAFF IN THE ENVIRONMENTAL DIMENSION OF ECONOMIC DEVELOPMENT;

7. PREPARE, PUBLISH AND DISSEMINATE DOCUMENTATION AND AUDIO-VISUAL MATERIAL PROVIDING GUIDANCE ON THE ENVIRONMENTAL DIMENSION OF ECONOMIC DEVELOPMENT ACTIVITIES.

ADOPTED AT NEW YORK ON 1 FEBRUARY 1980.

THE AFRICAN DEVELOPMENT BANK

Kwame Donkor Fordwor
President

THE ARAB BANK FOR ECONOMIC DEVELOPMENT IN AFRICA

Chedli Ayari
President

THE ASIAN DEVELOPMENT BANK

Taroichi Yoshida
President

THE CARIBBEAN DEVELOPMENT BANK

William Demas
President

THE INTER-AMERICAN DEVELOPMENT BANK

Antonio Ortiz Mena
President

THE WORLD BANK

Robert S. McNamara
President

THE COMMISSION OF THE EUROPEAN COMMUNITIES

Roy Jenkins
President

THE ORGANIZATION OF AMERICAN STATES

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January 24, 1984

Mr. A.W. Clausen, President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

We are writing on behalf of eight national and international environmental organizations with over five million members in North America and the Developing World. Our concern is the World Bank Fishery Sector Policy Paper issued in December, 1982.

Bank sector policy papers have great importance for the sustainable management of natural resources, on which successful long term economic development depends. This is not only because of the very large scale of Bank lending, but also because of the policy influence the Bank exercises in borrower countries. The Bank is rightly viewed to be, in most instances, a leader among international development agencies in formulating and implementing ecologically sound policies and procedures.

Thus, we are disappointed that the Fishery Sector Policy Paper fails to mention a number of key and widely accepted principles of fisheries management or refers to them only in an indirect or overly general way. The crisis in world fisheries caused by widespread overexploitation is not addressed, and concepts such as maximum sustainable yield and an ecosystem conservation standard are not mentioned. The paper lacks the rigor which we have come to expect from official Bank statements on technical matters.

We find particularly disturbing the lack of any reference to most of the fisheries management principles set out in the World Conservation Strategy, endorsed by the President of the Bank in 1980, and in the Law of the Sea Treaty, which embodies the arduously developed consensus of almost all Bank member countries on a number of issues critical to sustainable fisheries management.

Most importantly, the paper expresses no clearly stated commitment on the Bank's part to taking specific actions in its project, country, and sector planning, and policy dialogue with member governments to ensure that ecologically sound management measures needed to assure sustained fishery production are effectively carried out. The Fishery Sector Policy Paper lacks the vigorous and systematic commitment to conservation set forth in policy speeches by the Bank's two most recent presidents and in the Bank signed 1980 Declaration on Environmental Policies and Procedures Relating to Development.

We respectfully request that the Bank revise the Fishery Sector Paper to incorporate these concerns. We are offering the attached comments, with specific chapter and page references, in the hope that they will be considered in such a revision. In addition, organizations with in-house fisheries expertise, such as the National Wildlife Federation, would be willing to offer more detailed comments once a revision is begun.

We suggest that in the future, draft policy papers concerning important natural resource issues be circulated more widely among environmental specialists and organizations to provide a forum for timely communication on critical ecological concerns.

Thank you very much for your attention to this matter.

Sincerely,

Thomas B. Stoel, Jr.
Director, International Project
Natural Resources Defense Council

Bruce M. Rich, Attorney
International Project
Natural Resources Defense Council

Barbara Bramble
Director, International Program
National Wildlife Federation

Jack Lorenz
Executive Director
Izaak Walton League of America

Michael Bean
Director, Wildlife Project
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Fran Lipscomb
Director, International Activities
National Audubon Society

Roque Sevilla Larrea
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Quito, Ecuador

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The Honorable Jerry Patterson, Chairman
Subcommittee on International Development Institutions and Finance
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
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The Honorable Mike Lowry
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COMMENTS: WORLD BANK FISHERY SECTOR POLICY PAPER

Chapter I: Status and prospects of World Fisheries.

This chapter fails to mention what we believe to be the two most important factors and policy issues concerning the status and prospects of world fisheries during the past decade: overexploitation and habitat destruction. According to the World Conservation Strategy (prepared by IUCN in collaboration with FAO and UNESCO with assistance and advice from UNEP and WWF),[1] "Overfishing is the main threat to marine living resources and a significant threat to fresh-water ones" (WCS 4.4). The Strategy also notes that coastal wetlands and shallows, which provide essential habitats for two thirds of the world's fisheries, "are being destroyed the world over, with severe effets on the economies that depend on them most closely." (WCS 2.10)

Overfishing is mentioned only twice, in other chapters in the Paper, as a cause of either full exploitation of stocks or of declines in the total catch of some species (pp. 25, 40), but the real magnitude and policy implications of the problem are never addressed. Again, according to the World Conservation Strategy, " because much utilization of fisheries is not sustainable, their contribution to national diets and incomes is likely to diminish. The result of past and present overfishing is that the annual world marine catch is 15-20 million tons (or about 20%-24%) lower than it might otherwise have been, and at least 25 of the world's most valuable fisheries are seriously depleted." (WCS 4.3)

Chapter I of the Paper attributes the decline in growth of world fisheries supply in the 1970's to "the dramatic drop in the catch of anchoveta in the Pacific Ocean, off Peru and Chile." (p. 13) It does not mention the consensus expressed in the reputable scientific literature on the reasons for this fisheries debacle: overfishing and insufficient attention to ecological data (such as effects of the El Nino current) in determining and enforcing allowable yields. (see Idyll, 1973; Payne, 1977 p. 452) The chapter makes a passing reference to the possibility that "rebuilding and better management of currently depleted or heavily fished stocks (especially anchoveta and herring)" could increase world fisheries production up to 25 million metric tons (p. 12), again without either mentioning the overfishing and lack of sustained yield management which has decimated fisheries worldwide (especially anchoveta and herring). (See Payne, 1977; Idyll, 1973; May et al., 1979). More importantly, this statement and the rest of the Paper ignore growing scientific evidence that many depleted fisheries may never be rehabilitated because seriously overfished marine ecosystems often become permanently altered so that species of commercial importance are replaced in their ecological niches by other species of limited use to humans (May et al, 1979; Payne, 1977; Idyll, 1973).

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[1] IUCN: International Union for the Conservation of Nature and Natural Resources, Gland, Switzerland; FAO: Food and Agriculture Organization of the United Nations, Rome, Italy; UNESCO: United Nations Educational, Scientific and Cultural Organization , Paris, France; UNEP: United Nations Environment Programme, Nairobi, Kenya; WWF: World Wildlife Fund, International, Gland, Switzerland.

Moreover, harvesting of multi-species ecosystems such as fisheries may lead to discontinuous, "catastrophic" collapses which are counter-intuitive and irreversible. (May et al, 1979; May, 1977) "Since these catastrophic changes are seldom, if ever, predictable in a quantitative sense, and since they can be expected to occur in almost any severely exploited ecosystem, the need for conservation and contingency planning is emphasized." (May et al., 1979).

Chapter II: Changing Conditions for World Fisheries.

The second chapter mainly focuses on issues and implications associated with establishment of 200 mile Exclusive Economic

Zones (EEZs) in international law. Thus, it is all the more surprising that the Fisheries Sector Policy Paper -- a major policy document of a United Nations family institution -- should so completely ignore the relevant provisions of the Law of the Sea Treaty concerning management of fisheries in the EEZ. The United Nations Convention on the Law of the Sea (UNCLOS) represents the codification of more than a decade of high-level policy discussions concerning the management and exploitation of marine fisheries by nearly all of the participating members of the World Bank. In all probability, this treaty will have entered into force by the time many new Bank fisheries projects are ready for implementation, making the Policy Paper's disregard of its provisions all the more distressing.

UNCLOS contains 320 articles and annexes. Two articles (56 and 57) define the EEZ and set forth the sovereign rights that pertain to it, codifying what has already become a fact under customary international law: control by coastal states of most of the fish resources of the world. More than forty additional articles, however, set forth agreed policies directly and indirectly relating to management of fisheries resources in the EEZ. Significantly, most of these provisions address environmental and ecological concerns.

In particular, Article 61 addresses the major management issues associated with exploitation of EEZ fisheries. Article 61.2 provides that each coastal state is to ensure, through proper conservation and management measures, the prevention of overexploitation of living resources in its EEZ; and Article 61.3 specifically states that coastal states shall take measures to maintain or restore populations of harvested species at levels which can produce the maximum sustainable yield (MSY). Article 61.3 includes a list of qualifying factors which coastal states can take into account in addition to MSY in setting allowable catch limits; some of these factors are economic (e.g., particular needs of coastal fishing communities) and others are environmental, such as the interdependence of stocks. Article 61.4 requires that the coastal state take into account effects on species associated with or dependent on the harvested species -- with the view that populations of dependent or associated species be maintained or restored -- at a level where their reproduction is not seriously threatened.

The principle set forth in Article 61.4 -- sometimes referred to as an "ecosystem conservation standard" -- was incorporated into the most recent major regional fisheries convention, the Convention for the Conservation of Antarctic Marine Living Resources (CCAMLR), which regulates fishing in the Southern Ocean surrounding Antarctica. This Convention has as signatories many of the world's leading fishing nations, including Japan, Chile, the USSR and Norway. With respect to Article 61, one international legal commentator noted that "What is of particular importance in these provisions is that they apply to all species, whether they are the subject of a commercial fishery or of no economic importance, and that they contain the obligation to regulate direct or indirect effects of fishing on these species so that their populations be maintained at sufficiently high a level to make their extinction impossible....(states are) bound to preserve species not for their immediate economic value but because of the role they play in the ecosystem" (de Klemm, 1981).

In as much as Article 61 sets forth management principles to prevent overexploitation, Article 62 sets forth the principle of "optimum utilization" of living resources in the EEZ so as to avoid underexploitation of resources in a hungry world. Under 62.1, states are to determine what part of the allowable catch of target species they wish to harvest in their respective EEZs, and then allow other states to harvest the remainder, provided, of course, that all states follow the strict conservation principles set forth in Article 61.

In UNCLOS, as in the World Conservation Strategy, conservation (including conservation of non-commercial species) and optimum utilization are inextricably dependent on one another and linked: conservation is the prerequisite for rational utilization. Incredibly, this critical policy principle is never articulated in the Bank's Fishery Sector Policy Paper; conservation is mentioned only once, in Chapter 4, as a "benefit" of fisheries development rather than its sina qua non.

Moreover, an entire part of UNCLOS -- part XII -- deals with "Protection of the Marine Environment." Article 192 establishes a general obligation of states to protect the marine environment, and Article 197 obliges states to cooperate in formulating international standards, rules and practices to bring about that end. Article 194.5 provides that states take measures to protect and preserve fragile or rare marine ecosystems and the habitats of depleted or endangered marine species. Nowhere in the 79 pages of the Sector Policy Paper are these universally recognized marine ecological concerns mentioned.

In addition, both UNCLOS (Article 206) and the World Conservation Strategy emphasize the importance of environmental assessment by coastal states of all activities, land-based or marine, which may have harmful effects on the marine environment. Article 205 of UNCLOS obliges states to communicate reports of these assessments "to the competent international organizations which should make them available to all States." The Policy Paper does include (p. 45, Chapter 4) a full paragraph on the need for a cross-sectoral approach in planning so as to take into account impacts of industrial, energy or agricultural activities on fisheries resources. However, exactly how the Bank plans to ensure this -- mandatory early environmental assessment is one of the more commonly accepted means worldwide -- is neither made clear here, nor later in the Policy Paper in Chapter 5, "The Role of the World Bank."

Finally, the Fishery Sector Policy Paper makes no mention of the growing number of Regional Seas treaties and Action Plans associated with the Regional Seas Programme of the United Nations Environment Programme (UNEP). This program has promoted a number of international agreements and protocols to address problems of environmental management and assessment in the world's major regional seas including problems associated with management and conservation of fisheries stocks and their habitats. Seas for which the littoral countries have adopted Action Plans and signed regional marine environmental management treaties include the Mediterranean, the Caribbean, the Arabian-Persian Gulf, the Red Sea and Gulf of Aden, West Africa, and the East Asian Seas.

To summarize: Chapter Two -- and the entire Fishery Sector Policy Paper -- ignores many of the major resource management issues associated with extension of the EEZ, issues which have been identified and agreed upon by the vast majority of Bank member states in UNCLOS, in regional agreements, and by the President of the Bank in 1980. These issues include adoption of a modified standard of Maximum Sustainable Yield, and/or of an "ecosystem conservation standard" to maintain or restore harvested populations, conservation of non-target, non-harvested species dependent on marine ecosystems, optimum utilization (on a conservation base) of EEZs; and protection of habitats of depleted, rare or endangered marine species. The issues discussed in Chapter Two are limited mainly to questions of micro-economics ("the type of industry to employ; the amount to invest in supporting infrastructure," etc.) (p. 24) Reference is made to devising and enforcing regulations (p. 25) without ever mentioning the principles on which such regulations must be based. Overfishing is mentioned (pp. 24-25) as a constraint to potential development of stocks, rather than as the catastrophic consequence of past development and management based on short term micro-economic considerations instead of on scientific, biologically sustainable principles. These principles have been incorporated into the more recent international fisheries agreements such as UNCLOS and CCAMLR.

Chapter 3: Structure and Dynamics of the Industry.

Nowhere in this chapter or in the rest of the Paper is there mention of the critical importance of intact coastal wetlands and shallows--especially mangroves and estuaries--for the economic sustainability of world fisheries, both off-shore and coastal. According to the World Conservation Strategy, the life cycles of species utilized by two-thirds of the world's fisheries are dependent on the ecological integrity of these endangered coastal ecosystems which serve as spawning, nursery and foraging grounds (2.10). In some tropical and semi-tropical areas, such as the Gulf of Mexico, up to 97% of commercially exploited species are dependent on these habitats. The Paper's vague reference to the need for cross-sectoral planning on p. 45 is neither explicit enough nor sufficiently focused to indicate any serious and meaningful consideration of this crucial policy issue. Surely, a major objective of World Bank fisheries policy should be to ensure that non-fisheries sector projects do not destroy or harm the biological underpinnings of future fishery development.

Chapter 4: Development Objective, Constraints and Options.

Conservation of marine resources is described as a development objective (pp. 39-40) or benefit (p. 6) among others, along with such economic and social goals as increasing incomes and foreign exchange, and improving nutrition. But conservation is not, especially in the case of management of living resources, a _post hoc_ benefit, nor is it only one objective among, or equivalent to, others. It is, in the words of the World

Conservation Strategy, "that aspect of management which ensures that utilization is sustainable and which safeguards the ecological processes and genetic divesity -- essential for the maintenance of the resources concerned." (WCS 1.6, emphasis added)

Conservation has been recognized worldwide as the prerequisite and first principle of natural resource development, which makes possible the sustainable realization of other objectives such as increased foreign exchange, improved nutrition, or increased incomes.

According to the World Conservation Strategy, conservation of living resources is to be achieved through the realization of three principal objectives:

1. The maintenance of essential ecological processes and life support systems (it has already been noted that, for fisheries, coastal wetlands and shallows are particularly critical habitats);

2. The preservation of genetic diversity (addressed by Articles 194.5, and 61.4 of UNCLOS);

3. Sustainable utilization of species and ecosystems (for which .....MSY and an "ecosystem conservation standard" are particularly important).

It is surprising and disappointing to find no mention of these three principles in the Chapter dealing with development objectives or anywhere else in the paper.

Moreover, the problem of incidental capture of non-target species is never raised nor addressed. Incidental take is responsible for the destruction and waste of over 7 million metric tons of fish a year (more than 10% of total world annual fish harvests in recent years) (WCS 4.5). Several species of sea turtles are threatened with extinction through incidental catch, and incidental catch of cetaceans, expecially dolphins and porpoises, is greater than intentional harvesting. Surely, the Bank should make a commitment to ensure that measures to deal with this problem be considered in its fisheries projects. These measures include modifications of fishing gear and methods, and establishment of closed seasons or protected areas for some fisheries. International agreements such as the Inter-American Tropical Tuna Convention already require the adoption of such methods.

The discussion in Chapter 4 on constraints to fisheries development also gives little consideration to the enormous importance of conservation. Mention is made only that "aggressive fishing practices can...alter the reproductive cycles of species" and that overfishing can cause problems in fisheries dealing with migratory or mobile species.

This discussion fails to point out the following fundamental constraints to fisheries development, constraints which are threats to the resource itself: overexploitation, habitat destruction, and pollution.

The options and strategy that should follow from these conservation objectives and constraints (which the paper omits) should therefore include: assurance "that the principal management goal for estuaries, mangrove swamps and other coastal wetlands and shallows critical for fisheries is the maintenance of the processes on which the fisheries depend (WCS, 5.7); "adoption of conservative management objectives for the utilization of species and ecosystems (WCS, 7.41);" and reduction of "incidental take" as much as possible (WCS, 7.5)."

Chapter 5: The Role of the World Bank.

This chapter notes that the Bank will rely heavily on outside agencies -- especially FAO -- to provide technical assistance in the fisheries sector. In light of this statement, it is especially surprising that no mention is made of the World Conservation Strategy and its principles, since the WCS was prepared in collaboration with FAO, as well as endorsed by the President of the World Bank.

On the very last page there is a single paragraph which refers in very general terms to the possibility that the Bank "can" or "may" play a role in disseminating information on the environmental consequences of development projects and in promoting natural resource conservation programs or institutions. This is not the systematic and substantive commitment to the essential role of conservation in the development of natural resources that has been set forth in the speeches of the two most recent Bank presidents, the World Conservation Strategy, UNCLOS, and the 1980 New York Declaration on Environmental Policies and Procedures Relating to Development. In the recent words of the Bank's president, "... *in order to be sustainable, development must include vigorous and studied attention to resource management*" (Clausen, p.10). "For sustainable development and wise conservation are, in the end, mutually reinforcing--and absolutely inseparable--goals." (Clausen, p. 19)

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Lake Alaotra: A Failure in the Paddy Fields

In 1970, Madagascar signed an agreement for a $5 million IDA credit for the irrigation of 12,000 hectares around Lake Alaotra. An IDA team calculated that rice production on this area could possibly triple in 10 years. Production, it was felt, could also be increased by double cropping rice or encouraging farmers to plant fodder and other crops after the rice harvest.

In 1980, five years after the project was completed, an independent evaluation team from the Bank concluded that few of the original objectives were accomplished. Rice production was up only 14 percent; farm incomes had barely increased, while inequities in wealth had grown, adding to social tensions. The project's rate of return, calculated initially at 11 percent, and estimated at completion at 22 percent as the price of rice boomed worldwide, actually may prove to be negative.

The project, in short, made "no significant contribution" to the economy of Madagascar and its 9 million people. Too much focus was placed on irrigation development, and broader responsibilities for the development of the Lake Alaotra region were neglected. The project suffered from severe technical problems in managing difficult peat soils. Most seriously, the project increased tension and disrupted traditional ties and disciplines, at a time of countrywide political and social turmoil. The area's traditional inhabitants resented the distribution of land to outsiders. Traditional values of sharing and village cooperation have been eroded, and dependence on the government increased. The evaluation report listed other detailed factors contributing to the failure of the project, among them:

- *Wrong Assumptions*. The appraisal report overestimated the supply of labor available in the area. Migrant labor had to be used during critical peak periods of rice cultivation, namely at transplanting and harvest time. But this labor supply proved unreliable. Some of these problems have been eased by permanent immigration into the project area, but this had added to social tensions and other problems.
- *Unrealistic Goals*. Cultivation of an off-season crop never succeeded because poor management of the irrigation system did not produce the water required to plant secondary crops. Double cropping of rice turned out to be technically impossible, as no suitable short-cycle varieties could be developed. Farmers preferred to graze cattle on rice stubble, rather than raising fodder crops, so that the pilot cattle-fattening component of the project did not work either.
- *Faulty Design and Execution*. Canals were dug lower than the fields they were meant to irrigate; in peat soils they sank even deeper. In rainfed areas, some marshy land was reclaimed but excessive drainage destroyed the peat soils and accelerated weed growth. When peasants attempted to eradicate weeds by burning, the peat soils often caught fire, further reducing productivity. Farmers complained of receiving less water than before, and yields in many areas have actually dropped.
- *Institutional Weakness*. The project's executing agency did not possess the technical and managerial resources required to implement a major project. Furthermore, because of low yields, farmers were unwilling to repay land recovery charges. Their arrears rose from 41 percent of their annual charges to 91 percent in five years. Without these revenues, the project agency was unable to maintain the irrigation works and provide the needed extension services.
- *Inadequate Supervision*. With more frequent and intensive supervision as an input to the management process, the project might have avoided some of the pitfalls. More supervision expertise by IDA, for instance, might have led to a resolution of the peat soil issues.
- *Factors beyond Human Control*. Longstanding erosion in the hills near the lake resulted in flooding during the monsoon, but the soils retained very little moisture in the dry season. Rivers and canals silted up, making irrigation ineffective.

While the project may achieve some increase in rice production, it will not be because of good project design. Rather, other unintended consequences—immigration, population growth, and intensive cultivation for subsistence rather than cash—will be responsible. However, there are plans to rehabilitate the scheme and strengthen the project agency as a part of a general effort to increase production in the region.

U.S./AID LOAN PROJECTS

Senator KASTEN. I appreciate your testimony. It is my understanding that you represent a large number of environmental groups. Is that correct?

Mr. RICH. It is a coalition of seven national environmental organizations which agree on these concerns and these issues. As I mentioned before we have 5.5 million members, approximately, in the United States.

Senator KASTEN. I would like for each of you to respond to these questions, if you would. You are focusing your attention on the funds that this subcommittee is in charge of for the World Bank and specifically for the soft loan window of the World Bank, IDA.

Can you characterize the projects which AID is working on, the projects which other multilateral financial institutions are working on, for example, the Asian Development Bank, the African Development Bank, or any of the banks? Are the AID projects significantly better or different, and if they are, why?

Mr. RICH. I would like to answer that question, Mr. Chairman.

In the case of USAID, I think there is a very interesting comparison, because it has been a matter of U.S. foreign assistance policy since 1976 to include environment and natural resources management as an important part of our priorities in development assistance aid.

Section 118 of the Foreign Assistance Act, and numerous amendments to it, give AID a mandate to fund and carry out projects in the environmental and natural resources area, and indeed environmental impact assessments are required by section 118 of the Foreign Assistance Act for major AID projects that have serious environmental consequences.

AID has done a lot in a positive sense to do more in the environmental area over the past 7 or 8 years. It has greatly increased its forestry funding, and forestry funding which is oriented toward what you might call ecological forestry—reforestation and watershed management, village fuel lots, and that sort of thing.

It is important to note that this is a bipartisan effort. The present Administrator of the U.S. Agency for International Development, Peter McPherson, stated the commitment of AID to the natural resources and environmental management perpective in development. So I think that USAID presents a very good example of what could be done.

MULTILATERAL BANKS

Senator KASTEN. I will ask Brent to comment, but before I do so, could you just characterize the other multilateral financial institutions, the regional banks, et cetera?

Mr. RICH. Yes; I am afraid that is a different story. I would even say that the World Bank, among the multilateral banks, has been, in spite of its faults, the leader in this area. It does have an Office of Environmental Affairs. For example, the Inter-American Development Bank does not. The two most recent presidents of the World Bank have at least made official policy commitments to this area.

INTER-AMERICAN DEVELOPMENT BANK

If you look at the Inter-American Development Bank, for example, in our opinion and in our judgment, it has been a laggard in these areas, It doesn't have any environmentally trained staff per se.

Up to 1981, the Inter-American Development Bank didn't even have a single professional forester on staff, although it was funding all through the 1970's projects worth hundreds of millions of dollars which were directly concerned with forestry or had very important direct impacts on forest resources in Latin America.

To summarize, I would say that the World Bank is probably a leader among the multilateral international development agencies in this area.

Mr. BLACKWELDER. I concur with that, and I would just point out the fact that if the World Bank is a leader with only 5 professional staff in its Environmental Office out of the 5,200 people, approximately, that it has, it illustrates how poorly staffed the other multilateral banks are.

PERSONNEL INCREASES

Senator KASTEN. Let me just make a comment. You seem to be suggesting that by hiring more staff people, more foresters, more whatever they might be, the policy of the institutions somehow would change.

You are obviously not trying to run an employment agency for environmental experts—maybe you are, looking around for jobs for your friends. [Laughter.]

It seems to me that if there is one thing that an awful lot of these groups are characterized by, it is too much staff, too many conflicting and overlapping groups, and frankly more and more complicated bureaucracy than anybody needs or wants, or in some cases is willing to admit to.

Your emphasis, it seems to me, is too much on staff, in counting the numbers of foresters, if you will, and not enough basic policy. Could you comment on that for purposes of the record?

Mr. RICH. I think that that is a good point, but we have not had a chance to describe all of the things that we found in the banks. It is true that staff alone, without procedures and policies, perhaps won't make much of a difference. Indeed, the most important actions that should be taken should concern, for example, creating clearer incentives within the World Bank for regular staff people to take into account environmental and natural resources concerns.

You find environmental and natural resources issues with most projects, so obviously the solution is not hiring an enormous staff, but there should be some sort of career incentive, some sort of bureaucratic incentive within the World Bank to ensure that the same attention is given to these concerns as things such as the economic rate of return, or engineering concerns, or what-have-you.

I would agree that staff itself is not going to be the only solution.

Mr. BLACKWELDER. The only point that I would make is that we are not talking about a lot of staff. We are only talking of 5 professional people in the Environmental Office out of 5,200. To double that amount would still be a minuscule portion of the effort.

These people are confronted with reviewing some 300 ongoing projects annually, to say nothing of having to make post-reviews to determine the success or failure of previous projects.

So we view it as a fairly hopeless task unless there is a modest increase in this area, and we believe that if you have fewer traditional economists and more multidisciplinary people and environmental specialists, you would get a better mix of projects.

Mr. RICH. I would like to state that the World Bank has actually more than 5,500 employees now, and 1 professional-trained ecologist. We think that that is just a lack of proportion. Naturally, an institution such as the bank should have hundreds of economists, but it should have perhaps two or three ecologists.

Senator KASTEN. So you are not going to give up on your staff case right now.

INCREASE IN UNEP PROGRAM

What you are suggesting as a general theme, if I understand the role properly, is supposed to be done by the United Nations Environment Program, at least that is what we are told when we fund them. There are a number of people who are lobbying for an increase in the UNEP program.

Frankly, many of the same groups that you represent, at different times in the process, have asked us for big increases in the U.N. Environment Program because they do all of this. You are saying that it is not being done.

What is going on that the UNEP is not doing? Are they not coordinating? Is the UNEP not doing its job? Please don't tell me that the UNEP doesn't have enough staff, because I know that they are one more bureaucratic morass.

What are they doing, and how do they fit into this, and why is it that they can't get the results that they say they are getting, or that they are working for?

Mr. RICH. Thank you for asking that question, because it is an important point.

First of all, some of the groups that I represent, not all of them, have supported UNEP in the past, but not to increase funding, simply to keep it at its present levels, which if you take into account inflation, it really represents a decrease in real resources. UNEP is a small agency. Its total budget is around $30 million, and the U.S. contribution of $10 million in the past has been very important. It is not a huge agency by U.S. Federal Government standards, or even by U.N. standards.

The role of UNEP, it is true, among other things, is to be a catalyst, or an organization which is to get other parts of the U.N. system to do more in the environmental area. UNEP was really responsible for convening the meeting and carrying out the negotiation which resulted in the 10 chief executives in the major international development agencies signing this New York Declaration in 1980, in which they pledged that they would do all kinds of things concerning environmental management.

Senator KASTEN. They being UNEP, or the institutions?

Mr. RICH. The heads of the institutions. It was a UNEP effort, and it wasn't easy to get all of these institutions to commit themselves to this.

Senator KASTEN. They signed it, but they are not doing what they said they would do.

Mr. RICH. Yes; but because they did sign it, it makes it possible to come back and spur these organizations to do what they committed themselves to do. So that meeting itself was important.

It is difficult for UNEP, located in Nairobi, and with its relatively small resources, for example. As I mentioned the budget is $30 million a year, and the four U.S. supported multilateral banks disburse over $20 billion a year in loans.

So it is difficult for UNEP to have the influence on Washington-based international agencies from Nairobi that representatives of U.S.

domestic groups can have. Simply because of the fact, in the case of the multilateral banks, the multilateral banks are run by their boards of directors, and then, of course, the votes of the directors are in proportion to how much money they contribute and the U.S. vote is the most important in these agencies.

So in the case of the multilateral banks, there is just so much that UNEP can do. UNEP can get the ball rolling, so to speak, but in the case of the multilateral banks, and the way that these banks are set up, UNEP can't have as much influence as the individual member countries, such as the United States.

One thing that is going to occur in all probability, in February there is going to be a Fifth Anniversary Conference that UNEP will sponsor dealing with the 1980 Declaration, to trace what progress has been made and to urge the banks to do more in this area. So they are continuing to follow this effort, it is just that in the case of the multilateral banks, it is a bit difficult for them to have as direct an influence.

I would just state, however, that UNEP has promoted a number of other very valuable efforts in the international area. The Regional Seas Program, for example, which is to cite one example. The Mediterranean Regional Seas Program is the only diplomatic forum in which Israel and Libya have sat down at the same conference table and seriously discussed substantive issues of common concern to those countries. There are a number of treaties and agreements dealing with the control of pollution in the Mediterranean which UNEP was successful in promulgating.

So there are a lot of UNEP success stories, and I think that it is important not to forget them.

Senator KASTEN. Do you have anything to add?

WATER POLICY REVIEW

Mr. BLACKWELDER. I would add just one other thing. UNEP can be a catalyst in reviewing bank policy because this year it is conducting a special water policy review, and it has convened a panel of experts. That report, which is pending, may produce something of significant value, but we will have to wait for its completion in the latter part of the spring.

Senator KASTEN. I agree with your statement of the problem, and there may be ways that you can work with the committee in terms of developing report language, or bill language, or other kinds of efforts that we can use to spur IDA and some of the other multilateral development banks. I am not so sure that you are going to get us to recommend more staff, but we might be able to work with you on a number of other issues.

I share your interest and your concern. Although I have not done that much traveling, one of the things that you do notice, and that is impressive as you go into some of the underdeveloped countries, is really the complete lack of environmental safeguards that we almost take for granted here now. They are significantly behind, and I think that we have to do what we can to bring them up to speed.

Thank you both for your testimony.

I just want to announce for the remaining witnesses that there is a vote on the floor, and it is the School Prayer Vote. It is a 45-minute record vote, which is unusual.

It is my intention to go through one or two more witnesses, and then if there is no other member of the subcommittee available, I will simply adjourn the meeting, and then we will return and finish the witnesses. It is my intention to go through until about 20 minutes before the hour, and then I will go up and vote.

The next witness is Gretchen Eick representing the United Church of Christ. We are happy to have you here this afternoon.

UNITED CHURCH OF CHRIST

STATEMENT OF GRETCHEN EICK, UNITED CHURCH OF CHRIST

RESULT OF CHURCH TRIP TO CENTRAL AMERICA

Ms. EICK. Thank you, Mr. Chairman. I am happy to be here.

I come before this committee representing the United Church of Christ, a denomination of 1.7 million members in 6,000 churches across the land. With me is James Lintner, coordinator of the Peace Priority of the United Church of Christ.

While we do not claim to speak for all of our denomination's members, we do speak from policy recommendations made in 1981 and 1983 at our biennial General Synod meetings which bring together more than 700 representatives of our denomination from most of our 50 States. We also speak from policy adopted in February at the Board of World Ministries meeting.

In addition to these clear policy recommendations from representative bodies of our denomination, we also bring first hand experience with church people in El Salvador, Nicaragua, and Honduras.

I was in those three countries in November, and Dr. Patricia Rumer, of our Board for World Ministries staff, took a group of 34 members of the United Church of Christ, pastors and laypeople, deliberately selected to be a random sampling of the church, on a fact finding trip from which they have just returned from Honduras and Nicaragua last week.

CHURCH RECOMMENDATIONS ON CENTRAL AMERICAN POLICY

Your have in your hands, attached to this testimony, a page which contrasts current administration policy toward Central America with the policies recommended by the United Church of Christ and, I might say, also recommended by probably 20 or 25 different national religious bodies, Protestant, Catholic, and some Jewish.

Our recommendations grow from a conviction that the overriding need of the people of Central America is peace—an end to the wars in El Salvador and Nicaragua. I would like to review those recommendations, looking particularly at El Salvador and Nicaragua.

EL SALVADOR

Looking at El Salvador: In October 1979, the reformist coup which brought civilians into the Government of El Salvador was received with a lot of excitement and anticipation in Washington and El Salvador.

Social Democrats and Christian Democrats joined with reformers within the traditionally dominant military to form a junta which promised a series of reforms to address the incredible disparities between wealthy oligarch and the vast majority of impoverished, landless Salvadoran peasants. But the civilian death toll in the first 2 weeks after the coup exceeded that of the first 9 months of the Romero government, which the coup had just deposed.

According to a recent study by the Albuquerque Journal and the Los Angeles Times, which did an exhaustive study of El Salvador's death squads published in December 1983, political killings went from 200 a year, before this coup, to 800 a month as the deposed military created an underground network throughout the country to eradicate those who wanted cooperation with the moderate left.

Roberto D'Aubuisson was himself at the center of this network, reading names of alleged subversives on TV and visiting the barracks to recruit soldiers and police to his crusade.

By January 1980, the civilians in the junta had resigned saying that they could not control the military violence. A new junta was formed with only Christian Democrats but it, too, resigned within months, and the Christian Democrats split over whether to participate in this government with this continuing problem of military and paramilitary violence.

Many of the cabinet officials and other government officers who resigned from these two civilian governments left the country, eventually some joined with the political opposition FRD. By the end of 1980, the FRD, having had its top leadership murdered on Thanksgiving Day 1980, formed a coalition with the country's five guerrilla groups and took up arms against the Salvadoran Government.

During that civilian government, that second junta—January to March 1980—you may remember that the Archbishop of San Salvador, Monsignor Oscar Romero, wrote to President Carter poignantly begging the United States to stay out of the conflict in El Salvador. Don't send military aid here, was his plea. Don't escalate our domestic conflict with your weaponry and influence.

One month later, the Archbishop was murdered while serving communion, just 4 years ago this week, and $5 million in military aid was sent by President Carter to El Salvador's military. By summer the rightist military which was overthrown in October were back in power. That $5 million so hotly debated in the Foreign Operations Subcommittee and Western Hemisphere Subcommittee appears minuscule next to the $93 million that was approved by the full Appropriations Committee last week for immediate military aid to El Salvador—$93 million to be added to the $64.8 million already appropriated in 1984.

We believe that this is an important time to take stock of what all the aid we have sent to El Salvador since 1980—$209 million in Economic Support Fund as well as $212 million in development aid, and $118 million in Public Law 480, title I—has bought. The Wall Street Journal had this to say recently:

> Four years of savage civil war have shattered the economy, broken the national spirit and left 40,000 civilians murdered. The bloodshed has wiped out a generation of leadership and narrowed the political spectrum.
>
> U.S. aid is already arriving too fast to be spent quickly. U.S. money is backlogged. The war is hobbling development. Projects are often destroyed soon after they are started. Corruption keeps siphoning off materials and equipment.

REPORT FROM CRS

A March 2 report from Congressional Research Service notes that there have been dramatic changes in U.S. aid to El Salvador, as indeed to the entire region, over these past 4 years, namely, a shift from funding development to funding which supports the government in power—ESF, military aid, and Public Law 480, title I.

In 1979, the United States provided only development assistance and humanitarian food assistance, Public Law 480, title II, to El Salvador. But in 1980 that changed as we added Economic Support Fund and Public Law 480, title I food sales. Under the Reagan administration, the change was more pronounced, as development aid was obscured by great increases in ESF—from $9 million in 1980 to $140 million in 1983.

Humanitarian food aid was fast overtaken by food aid which is sold by the government to get balance of payments support. Public Law 480, title II, humanitarian food aid, is now actually lower for 1983 and 1984 than it was in 1980, whereas the food sales direct support to the government grew to $39 million by 1983. United States development assistance and humanitarian food aid decreased while one-half million Salvadorans lost their homes and became internal refugees.

I have attached the figures on aid to my testimony.

This great increase in aid which supports the government in power and diminishing of humanitarian and development aid has been accompanied by a steady restriction of political rights in El Salvador, most notable the right to life as 40,000 civilians have died during this period.

In March 1980, a state of siege was declared, suspending freedom of movement, freedom of residence, and assembly. This state of siege was renewed monthly ever since with the exception of two occasions in 1982. Decree No. 114 subordinated the Constitution of El Salvador to proclamations of the armed forces, and Decree No. 507 permitted the military to hold citizens without charge up to 180 days, as well as eliminating the standards of evidence. The two opposition newspapers in El Salvador were closed in July 1980 and January 1982, and all other newspapers were subject to censorship.

I was told by Tom Stuckel, the AID Director at our Embassy in San Salvador, that U.S. aid to El Salvador is the third largest U.S. aid program in the world, coming only after Israel and Egypt, for that tiny little country. We have poured resources into tiny El Salvador for 4 years now.

DEATH SQUADS IN EL SALVADOR

Belatedly, now, some attention is being paid by our Government to the death squad activity in El Salvador. We are told that the Salvadoran Government is cracking down on death squad killings of civilians. Three government officials so involved have been transferred to new jobs. But the killing of civilian noncombatants by the government's own forces continue apace—241 were killed in January of this year by the government's own forces according to the Americas Watch's February report.

I speak of these things with some passion because I was in El Salvador, and I met with a wide variety of church people and learned from them that only in Washington do people believe the death squads are distinct from the government's own forces.

A member of the government's own Human Rights Commission of El Salvador told us that the death squads were government troops in civilian dress, "like your FBI," he said. Bishop Gregforio Rosa Chavez, Auxiliary Bishop of San Salvador, told us of his 70-some year old father being picked up last fall, held incommunicado, interrogated, and finally discovered being held by the army.

We had supper with a collection of Protestant ministers and lay leaders—Lutherans, Baptists, Assembly of God, and others. Our host, our first night in El Salvador, was a Lutheran pastor who was red eyed and grim, terror showing in his eyes. He told us this:

> Last night they came for our church secretary, and the church treasurer with her two children, ages 13 and 3, and five other relatives. They came in the middle of the night. Some jumped on the roof, others came in the windows. They were government security forces in civilian dress.
>
> Some months ago, they took me along with a doctor from our congregation who was giving medical care to the refugees. We were both tortured. We would have been killed if it hadn't been for Lutherans in the United States who protested to the State Department and the U.S. Embassy and the Salvadoran Government.
>
> I can't sleep. I keep listening for them. Please, could you find some church people in the United States who would be willing to come and live with us in our homes? We will house and feed them. If they were here the Security Forces won't come for us. They don't want to risk accidentally hurting an American which might mean that they wouldn't get U.S. support.

These Lutherans were being held by the national police.

In short, let us have no illusions that the present policy toward El Salvador tries to assist the poorest of the poor of that nation. It is a policy of all out support for the government which is involved in abusing its people.

For 2 years Congress expressed concern over human rights in El Salvador and required Presidential certification that the Salvadoran Government was improving its human rights record. For 2 years the President made this certification despite the church and other documentation that human rights are nonexistent, and the aid has been sent.

Senator KASTEN. I would ask that you summarize your statement. Your time has expired.

Ms. EICK. I would like in summary to make a couple of comments about how we think we can get out of this situation in El Salvador, because our advocacy is not that we simply turn tail and run from El Salvador, but that we do the most creative thing available in the judgment of many in El Salvador and in the United States, church people on both sides.

At the end of February, Archbishop Rivera y Damas said:

> I do not know of any other solution than dialogue with the opposition. It is a position which not only conforms to the Gospel but also to the reality of Central America. I believe that these elections will serve very little unless the government decides to open dialogue with the opposition.

He and his auxiliary Bishop are both under death threats because talk about that is considered subversive in El Salvador, as you will find out, if you talk to Salvadoran Government officials.

We believe that opening dialog with the opposition is the road to ending this war in El Salvador, which is the desire and the goal of so many Salvadorans. We have talked to many, many peasants. We have talked to many church people. Over and over again, no matter what their political views, their greatest concern is that the war be ended, that the suffering be ended.

The war is now taking a new turn, as more and more bombing is being done. The Defense Minister of El Salvador told us that one of the changes in the war recently has been increased use of aerial bombardment, anywhere from 1-to-10 bombing missions a day. People just want the war to end.

In order to get the Salvadoran Government to negotiate with the opposition, the FDR/FMLN, they will have to believe that Uncle Sam will no longer send them military assistance until those negotiations are underway.

The government is now committed to continuing that war, and unless we use the leverage that that $968 million we have provided in the past gives us, we don't believe there are any signs right now that that government will go into negotiations.

Our recommendation to this subcommittee is to pledge high levels of aid to reconstruct the shattered country of El Salvador only after negotiations are underway, and to deny any additional military aid or ESF aid for 1984, and make ESF and military aid for 1985 contingent on negotiations being underway under Contadora supervision.

What was passed by the House Western Hemisphere Subcommittee, requiring a two-House vote of Congress, approving that in fact the conditions, including the negotiations being underway, are indeed being followed by the Government of El Salvador.

Senator KASTEN. The Michael Barnes proposition.

Ms. EICK. Yes.

In terms of Nicaragua, the testimony goes into some detail about that, and we would strongly urge no further assistance to the contra in Nicaragua and we would hope that the subcommittee would pay some attention to the data that we have accumulated on that.

As far as Honduras is concerned, we would support what has been done by the Western Hemisphere Subcommittee on the House side, which is to restrict the number of U.S. military in Honduras to those who are needed to administer the AID program and protect the Embassy.

[The prepared statement of Ms. Eick follows:]

PREPARED STATEMENT OF GRETCHEN EICK
POLICY ADVOCATE, OFFICE FOR CHURCH IN SOCIETY
UNITED CHURCH OF CHRIST

I come before this committee representing the United Church of Christ, a denomination of 1.7 million members in 6000 churches across this land. With me are Patricia Rumer, the Latin America secretary of our Board for World Ministries and James Lintner, coordinator of the Peace Priority of the United Church of Christ. While we do not claim to speak for all of our denomination's members, we do speak from policy recommendations made in 1981 and 1983 at our biennial General Synod meetings which bring together more than 700 representatives of the denomination from most of our 50 states. We also speak from policy adopted by our Board for World Ministries at its Board meeting this past February. In addition to clear policy recommendations from these representative bodies of our church, Dr. Rumer and I bring first-hand experience with church people in El Salvador, Nicaragua and Honduras. I was in El Salvador, Honduras and Nicaragua in November and Dr. Rumer took a group of 34 United Church members, pastors and laypeople, on a factfinding trip to Honduras and Nicaragua returning just last week.

You have in your hands attached to this testimony a page which contrasts current Administration policy toward Central America with the policies advocated by the U.C.C. 4 Our recommendations grow from the conviction that the overriding need of the people of Central America is peace--an end to the wars in El Salvador and Nicaragua. Let me review these recommendations country by country with some comments.

EL SALVADOR: In October 1979 the reformist coup which brought civilians into the government of El Salvador was received with excitement and anticipation in Washington and El Salvador. Social Democrats and Christian Democrats joined with reformers within the traditionally dominant military to form a junta which promised a series of reforms to address the incredible disparities between the wealthy oligarchs and the vast majority of impoverished, landless Salvadoran peasants. But the civilian death toll in the first two weeks after the coup exceeded that of the first nine months of the Romero government which the coup had deposed. According to the Albuquerque Journal and Los Angeles Times which did an exhaustive study of El Salvador's death squads published in December (1983), political killings went from 200 a year (pre-coup) to 800 a month, as the deposed military created an underground network throughout the country to eradicate those who wanted cooperation with the moderate left.¶ Roberto D'Aubuisson himself was at the center of this network, reading names of alleged subversives on TV and visiting the barracks to recruit soldiers and police to his crusade. By January 1980 the civilians in the junta resigned saying they could not control the military's violence. A new junta was formed with only Christian Democrats but it, too, resigned within months and the Christian Democrats split over whether to participate in this government with this continuing problem of military and paramilitary violence. Many of the cabinet officials and other government officers who resigned from these two civilian governments left the country; eventually some joined with the political opposition FDR. By the end of 1980 the FDR--its top leadership murdered Thanksgiving Day 1980--formed a coalition with the country's five guerrilla groups and took up arms against the Salvadoran government.

During the second junta with civilians (January-March 1980) the Archbishop of San Salvador, Monsignor Oscar Romero wrote President Carter poignantly begging the U.S. to stay out of the conflict in El Salvador. Do not send military aid here, was his plea; do not escalate our domestic conflict with your weaponry and influence. One month later, the Archbishop was murdered while serving communion (just four years ago this week) and $5 million in military aid was sent by President Carter to El Salvador's military. By summer the rightist military, overthrown in October of 1979, were back in power.

That amount, so hotly debated in the Foreign Operations and Western Hemisphere subcommittees, appears miniscule next to the $93 million you gentlemen approved last week for immediate military aid--$93 million to be added to the $64.8 million already appropriated for 1984. We believe it is time to take stock of what all the aid we have sent El Salvador since 1980--$209 million in military aid and $429 million in Economic Support Fund as well as $212 million in Development aid and $118 million in PL480 I--has brought.

The Wall Street Journal had this to say:

> "Four years of savage civil war have shattered the economy, broken the national spirit and left 40,000 civilians murdered. The blood shed has wiped out a generation of leadership and narrowed the political spectrum." (Feb. 27)
>
> "U.S. aid is already arriving too fast to be spent quickly... U.S. money is backlogged...the war is hobbling development; projects are often destroyed soon after they are started... corruption keeps siphoning off materials and equipment." (Feb. 7)

A March 2 report from Congressional Research Service (Report No. 84-34F) notes that there have been dramatic changes in U.S. aid to El Salvador (as indeed to the entire region) over these four years, namely a shift from funding development to funding which supports the government in power--ESF, military aid, and PL480I.* In 1979 the U.S. provided only development assistance and humanitarian food assistance (PL480 II) to El Salvador. In 1980 that changed as we added Economic Support Fund and PL480 I (food sales). And under the Reagan Administration the change was more pronounced as development aid was obscured by great increases in ESF (from $9.1 million in 1980 to $140 million in 1983). Humanitarian food aid was fast overtaken by food ~~aid~~ which is sold by the government to get balance of payments support. PL480 II--humanitarian food aid--is now lower for 1983 and 1984 than it was in 1980 whereas PL480 I grew to $39 million by 1983. U.S. development assistance and humanitarian food aid decreased while half a million Salvadorans lost their homes and became internal refugees.

				Economic	
	Disaster	DA	ESF	PL480I	PL480II
El Salvador					
1984(E)	—	41,300	120,000	32,000	2,461
1983(E)	—	58,540	140,000	39,000	1,611
1982	3,376	36,199	115,000	27,200	7,687
1981	553	32,792	44,900	17,200	9,077
1980	—	43,155	9,100	3,000	3,269
1979	—	6,045	—	—	2,573
1978	—	7,527	—	—	1,584

This great increase in aid which supports the government in power and diminishing of humanitarian and development aid has been accompanied by a steady restriction of political rights, most notable the right to life as 40,000 civilians have died during this period. In March 1980 a state of seige was declared suspending freedom of movement, residence, assembly and renewed monthly even since with the exception of two occasions in early 1982. Decree No. 114 subordinated the Constitution of El Salvador to proclamations of the Armed Forces and Decree No. 507 permitted the military to hold citizens without charges for up to 180 days as well as eliminating the standards of evidence. The two opposition newspapers were closed in July 1980 and January 1982 and all other newspapers were subject to censorship.

The U.S. aid to El Salvador which, I was told by Tom Stuckel, the AID Director at our embassy in San Salvador, is the third largest U.S. program in the world, after only Israel and Egypt. We have poured resources into tiny El Salvador for four years. Belatedly, now, some attention is finally being paid to death squad activity in El Salvador by the Reagan Administration. We are told the Salvadoran government is cracking down on death squad killings of civilians; three government officials so involved have been transferred to new jobs. But the killings of civilian non-combatants by the government's own forces continue apace--241 in January of this year according to Americas Watch's February report.

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*In FY78 92% of all U.S. assistance to Central America was development aid but by 1983 development aid was only 23% of U.S. aid to the region.

I speak of these things with some passion, gentlemen, for I was in El Salvador and met with a wide variety of church people and learned from them that only in Washington do people believe the death squads are distinct from the government's own forces. A member of the government's own Human Rights Commission of El Salvador told us the death squads were government troops in civilian dress, "like your FBI". Bishop Gregorio Rosa Chavez, Auxilliary Bishop of San Salvador, told us of his 70-some year old father being picked up last fall, held incommunicado, interrogated, and finally discovered being held by the Army.

> We had supper with a collection of Protestant ministers and lay leaders--Lutherans, Baptists, Assembly of God, and others. Our host, the Lutheran pastor, was red-eyed and grim, terror showing in his eyes: Last night they came for our church secretary, her two children, aged thirteen and three, our treasurer, and five of their relatives. They came in the middle of the night. Some jumped on the roof; others came in the windows. They were government security forces in civilian dress.
>
> Some months ago they took me along with a doctor from our congregation who was giving medical care to the refugees. We were both tortured. We would have been killed if it hadn't been for Lutherans in the U.S. who protested to the State Department and the U.S. embassy and the Salvadoran government.
>
> I can't sleep. I keep listening for them. Please, could you find some church people in the U.S. who would be willing to come and live with us in our homes? We will house and feed them. If they were here the security forces won't come for us. They don't want to risk accidentally hurting an American which might mean they wouldn't get U.S. support.

These Lutherans were being held by the National Police.

In short, let us have no illusions that the present U.S. policy toward El Salvador tries to assist the poorest of the poor of that nation; it is a policy of all-out support for the government which is involved in abusing its people.

For two years Congress expressed concern over human rights in El Salvador and required Presidential certification that the Salvadoran government was improving its human rights record. For two years the President made this certification despite church and other documentation that human rights are non-existent, and the aid has been sent.

In December breaking with what was becoming absurd, President Reagan vetoed the certification requirement. This month (March 8) he circumvented the required authorizing process altogether and tried to force Congress to give a quick $93 million in military aid to El Salvador by tying that aid to the emergency appropriation desperately needed by Africa's 3 million starving people, a bill already passed by the House. The irony is stark; with one bill the U.S. would give life to Africans and more death to Salvadorans.

We commend Senators Hatfield, Weicker, Andrews, Stennis, Byrd, Proxmire, Inouye, Hollings, Eagleton, Burdick, Leahy Sasser and Bumpers of the full Appropriations Committee for their opposition to this $93 million, expressed in their vote to support the tabling motion of Mr. Inouye March 14. And we urge Senators Stevens, McClure, Laxalt, Garn, Cochran, Abdnor, Kasten, D'Amato, Mattingly, Rudman, Specter, Domenici, Chiles, Johnston, Huddleston, and DeConcini to prayerfully reconsider their support for this military aid before the floor vote.

The fruit of four years of U.S. aid to El Salvador--the third largest U.S. aid program in the world--has been

- a stalemated war despite the almost doubling of the size of the Salvadoran army (37,500 last November with a major recruitment drive in early '84);
- an economy in a shambles--negative growth rates; the standard of living now lowered to what it was in 1960 according to the Kissinger Commission; and a shortfall in the budget for 1983 of $40 million, according to Bonnie Lincoln, Economics Officer at the U.S. Embassy, despite the fact that the U.S. pays almost 1/3 of the Salvadoran budget.
- 40,000 civilians killed not in combat with not a single verdict in any of these murders and the army and civil defense forces continuing to murder civilians.

How do we get out of this quagmire?

At the end of February, Archbishop Rivera y Damas said "I do not know of any other solution than dialogue with the opposition. It is a position which not only conforms to the Gospel but also to the reality of Central America...I believe that these elections (March 25) will serve very little unless the government decides to open dialogue with the opposition." (interview in Rome's La Republica, Mar. 8)

Auxiliary Bishop of San Salvador, Gregorio Rosa Chavez, and Archbishop Rivera y Damas are both under death threats. To talk of dialogue is considered subversive. Bishop Chavez told us in November that the war is so terrible that most people care little who wins; they only want the war to end. Over and over as we visited refugee camps and spoke with church people we heard the plea, "Tell your government to please end this war".

¶ But the Salvadoran government is committed to continuing the war. Negotiations are the only humane solution, but Salvadoran officials will tell you as they told us that they consider negotiations out of the question. They will have to be forced to dialogue. The $968 million of U.S. aid we have provided that government has not worked as a lever to obtain verdicts in the 40,000 civilian murders or to get the government committed to some economic reforms. The threat of that aid ending does not work either, since they experience Congress always coming through with more money. To get them to negotiate with their opposition--the FDR/FMLN--they must believe Uncle Sam will give no more until negotiations are underway with Contadora supervision.

We urge you to send them that message by pledging high levels of aid to reconstruct that shattered country once negotiations are underway and by denying any additional military or ESF aid for FY84 and making FY85 military and Economic Support Fund aid contingent on negotiations being underway under Contadora supervision.

The alternative is to commit greater and greater amounts of U.S. aid and ultimately U.S. troops to a government whose brutality breeds communists by making any alternative look attractive.

NICARAGUA: Since late 1981 it has been US policy to fund the guerrillas fighting to overthrow the government of Nicaragua. The United Church of Christ has strongly opposed funding the contras. We are most distressed by this committee's support last week for sending $21 million more in covert aid to the guerrillas fighting to overthrow the government of Nicaragua. Our country violates Article 18 of the OAS charter by funding this war.

> "No state or group of states has the right to intervene, directly or indirectly, for any reason whatever, in the internal or external affairs of any other state. The foregoing prohibits not only armed force but also any other form of interference or attempted threat against the personality of the state or against its political, economic and cultural elements."

This war inflicted $130 million in damage to Nicaragua's infrastructure in 1982 alone. United Church of Christ members have visited the conflict areas, seen the destruction in the port city Corinto, talked with Nicaraguan peasants who have lost family members in contra attacks. Just last week our fact finding delegation saw a Panamanian ship at Corinto which had been mined by the contras two days earlier.

Nicaragua is a poor country. It had only $3.5 million in the bank when Somoza fled in July 1979. The contras' sabbotage inflicts considerable hardship on Nicaraguans. It is doubtful this war would be viable without all the US aid. Before the Reagan administration started funding the contras, the CIA estimated there were 400 of them. Now, after receiving reportedly $73 million from the US taxpayers, there are 15,000 (curious to find this administration so lavishly funding dissidents).

We urge you to vote against any funds for the contra guerrillas, covert or overt

We find current US policy amazingly inconsistent. The US gives some Marxist nations most favored nation trading status (e.g. Rumania), sells military related material on easy financing to others (e.g. the People's Republic of China), engineers peace accords between states we view as anti-communist allies and Marxist states (as in the March 16 accord between Mozambique and South Africa). Yet our current policy policy views Nicaragua as "a direct threat to the security interests of our country." [1] It funds the overthrowing of Nicaragua's government meanwhile seeking to isolate it. This year we have revived the military alliance CONDECA but excluded Nicaragua, vetoed multilateral loans to Nicaragua (e.g., in the Interamerican Development Bank) and tried to persuade our European allies to stop their assistance to Nicaragua. Compared with how we relate to most other marxist/socialist states, our policy toward Nicaragua appears obsessive.

Why can't we be friendly to this nation which has had such a close and historic relationship to us? Do we fund the contra war because Nicaragua aids El Salvador's guerrillas? Since 1981 no evidence has been publically presented showing major arms or ammunition aid. US Ambassador Anthony Quainton told us there was evidence of some arms being sent to El Salvador in dugout canoes across the Gulf of Fonseca -- hardly major quantities.

Do we promote and fund the contra war against Nicaragua because of Nicaraguan abuses of human rights? Certainly there have been some troubling human rights abuses-- restriction of the right to travel, suspension of the right of _habeas corpus_ under the State of Emergency declared in March 1982, censorship of _La Prensa_, restrictions of Roman Catholic bishops' access to television, detention of Miskito Indians suspected of contra sympathies, and transfer of 8000 Miskitos away from the Honduran border. Just how bad is it? In November and again in March when we were in Nicaragua, we asked many people including vocal critics of the government to compare human rights under the Sandinistas with human rights under the Somozas. The executive of the private Human Rights Commission, one such critic, told us that there are no killings, disappearances, executions or physical torture under the Sandinistas, unlike under Somoza (contrary to the charges of the Heritage Foundation's report "The Sandinista and Human Rights").

Lawyers for imprisoned Miskitos and Moravian clergy whose ministry is to Miskitos told us of their negotiations with the Sandinista government which have since resulted in Miskito detainees being released from prison and amnesty for Miskitos who fled to Honduras. They identified the contra guerrilla war against Nicaragua as the major cause of restrictions of Miskito human rights and spoke with passion of the need to end US funding of that war -- the most helpful thing the US could do for the Miskito.

We asked outgoing US Ambassador Anthony Quainton what would be the best thing the US could do to reduce tensions in Central America. "Stop supporting the Contras" was his quick reply. Then he smiled, "But reducing tensions in the region is not our objective." The consensus of most everyone we spoke with was that the war was the biggest problem. End the war and civil liberties issues would be able to be redressed. Why are we in this war?

Are we at war with Nicaragua because Nicaragua is dominated by a single party, the Sandinistas? But so is Mexico, as it has been since its revolution a generation and a half ago. We have a big stake in Mexico -- $7 billion invested in Mexico in 1981, compared with $1 billion in the rest of Central America other than Panama,[2] and consider Mexico despite its revolution, an ally. [3] Are we at war with Nicaragua because it is too dependent on the Soviets?

Nicaragua has worked hard at diversifying its economic dependency so that it would not be heavily dependent on the US (like it was pre-1979) or on any other country. During its first two and half years, its aid came primarily from other Third World countries (49%) and western developed countries (32%); only 19% came from socialist countries;[4] according to the Nicaragua's International Fund for Reconstruction (RIE). But the US is pressing Western European governments and Canada to stop aiding Nicaragua. If this pressure is successful, Nicaragua may be unable to diversify its economic dependency and may have to turn more to the socialist bloc for aid.

Are we at war with Nicaragua because in the UN it votes too often in sympathy with the USSR?

The bulk of Nicaragua's vote at the UN have been with the Soviet Union which is also not unusual for Third World non-aligned states. Peru, for example, has a similar record, yet Peru is not written off by the U.S. nor do we fund the overthrow of its government.

Nicaragua, we are convinced, wants friendly relations with the U.S. Daniel Ortega, head of the Junta and "president" of Nicaragua, spent two hours with us in November. Tomas Borge, the most senior of the nine Sandinista commandantes, spent time last week with our UCC factfinding delegation. (He could talk with church people but not with U.S. officials in Washington since he was denied a visa just before his December visit was to take place). Both men stressed Nicaragua's desire for friendly relations with the U.S. Nicaragua has signed the 21 point Contadora principles, offered to stop receiving foreign military aid as part of a region wide agreement to reject foreign military aid, bases and troop training and agreed to internal mechanisms of verification with the Contadora nations having onsite access.[5]

Serious negotiating of such an agreement meets our security concerns of reducing Nicaragua's military buildup and reducing the likelihood of regional war or of a Soviet military presence in our hemisphere. Funding a war to overthrow this sovereign nation only exacerbates those potential dangers to our security.

HONDURAS: Finally, as you mark up the President's aid requests for FY84 (supplemental) and FY85 for the region, we urge you not to increase military aid to Honduras and to restrict the number of U.S. military in Honduras to those needed to administer the aid program and protect the Embassy. The militarization of Honduras during the past year is striking. A number of Hondurans we met told us they no longer feel they can talk politics freely--there is fear and suspicion in the air and to be on the left, albeit anticommunist, is to court government scrutiny. Real U.S. support for negotiations to end the war in El Salvador and the war against Nicaragua can take the pressure off Honduras so it can see to its very real and sobering development needs.

According to Congressional Quarterly (Dec. 31, 1983), "In his first three years in office, he (President Reagan) has given the region nearly as much non-military aid as the Kennedy, Johnson, Nixon, Ford and Carter administrations gave in the previous 19 years. He also has given the region twice as much military aid as his predecessors combined." (emphasis mine, p. 2776.)

We in the United Church of Christ "call upon the U.S. government to...reverse its policy of seeking military solutions to the conflicts in Central America and to pursue with vigor every opportunity to obtain just, negotiated solutions." (General Synod 14, July 1983).

FOOTNOTES

[1] Nestor Sanchez, Undersecretary of Defense, speech in Charlottesville, VA, October 15, 1983.

[2] Changing Course: Blueprint for Peace in Central America and the Caribbean. (Washington: Institute for Policy Studies/Policy Alternatives for the Caribbean and Central America, 1984), p. 56.

[3] When Mexico nationalized U.S. oil companies in 1938, President Franklin Roosevelt resisted pressure for military intervention and instead offered Mexico a long term, low interest loan with which to compensate the oil companies--a turning point in Mexico's revolutionary government's relations with the U.S. Institute for Policy Studies, p. 15.

[4] According to the State Department Nicaragua received $175-200 million in military aid from the U.S.S.R. and $50-70 million from Cuba, East Germany, Czechoslovakia, Poland, Bulgaria, Vietnam and North Korea in the 4½ years since its revolution (up to December 1983). During that same period Honduras received the same amount of security assistance from the U.S. as Nicaragua received from the Soviet Union ($192.3 million, prorating FY84 money for three months of that fiscal year).

[5] William Jesse Biddle, "U.S.-Nicaragua Talks - Going Through the Motions," International Policy Report. (Washington: Center for International Policy, Dec. 1983).

DEATH SQUAD ACTIVITIES

Senator KASTEN. I had some questions, but frankly we are out of time. In the interest of about six or seven other people who are awaiting their turn, I am just going to ask one.

I am getting most of my information, frankly, from the AFL–CIO in terms of the reports. We have been trying to work with the labor groups down there. They tell us that there have been no death squad murders in January, February, and none yet in March. Is that the same information that you have?

Ms. EICK. It is not the same information exactly.

Senator KASTEN. I am not talking about the leftists. There are two or three documented cases in which, in fact, the left has publicly taken credit for murdering some government or rightist politicians, or people who were likely to run for office. But there have been no death squad activities, according to the AFL–CIO, in January, February, and thus far in March. Is that your information, or is that not your information?

Ms. EICK. That is not our information. I would like to submit to you the records from Tutella Legale, which is the Archdiocese of San Salvador's own human rights office, the one that is operated under the auspices of the Archdiocese and collects these figures and does a superb job, really, the best job of any group I know of in El Salvador, collecting information on all of the killings, and trying to assess who is responsible for what.

One of the points that Americas Watch makes in that report that I referred to is that, if you look at killings of civilians, and don't simply focus on the ones that are named death squad killings, what you find is that the killings that are attributed to actual organs of the Salvadoran Government—the army, the treasury police, the national police—those killings have stayed the same.

There has been no diminution in the numbers of people killed by the government forces, and those are still running up. As I said, the January figure is 241 civilians killed, not in combat, but by the government's own forces. There is a sort of fine distinction between the two.

Senator KASTEN. We have some people assuming that anybody who has been killed has been killed by one side.

Ms. EICK. No.

Senator KASTEN. What other groups are pointing out is that it is both sides.

Ms. EICK. If you look at the figures, you will see that they also have killings by the leftist that they record.

Senator KASTEN. Thank you for your testimony.

Ms. EICK. This is Dr. Patricia Rumer, who is our Latin American Secretary, Board of World Ministries, United Church of Christ.

Could I insert in the record, also, two other statements. One in a letter from 49 organizations, 37 of them religious groups who went to the Congress on February 29, also advocating the same policy. The other is a statement from 12 national presidents of Protestant denominations.

[The information follows:]

CHURCH LEADERS MAKE STATEMENT ON CENTRAL AMERICA

(Mr. MILLER of California asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include extraneous matter.)

Mr. MILLER of California. Mr. Speaker, over the weekend the leaders of 12 major Protestant denominations made a very important statement about Central America. They echoed a sentiment which is growing among the American people and religious organizations which oppose President Reagan's policies in Central America. The time has come to say "no more" to that policy.

These church leaders called our policy of military aid to the Government of El Salvador an immoral one. They said that current policy is distorted and based on false premises. They said that Reagan's policies are leading toward direct U.S. intervention.

The Congress would do well to listen to the conclusions of these religious leaders, which I want to share with my colleagues today. Scarcely a day goes by without reports of a new scandal involving our aid programs in El Salvador; new evidence of coverup by the Salvadoran Government in the prosecution of the murderers of four U.S. churchwomen; new information about "maneuvers" in Honduras which are nothing more than a pretext for a massive U.S. military buildup in Central America.

The time has come to oppose that policy. It is no longer sufficient to write conditions into our foreign aid bill, hoping that the Salvadoran Government will behave as we would wish. We must deny the administration the means to pursue a military solution in El Salvador by cutting military aid. Instead, the Reagan administration and the Salvadoran Government must take the necessary steps to find a negotiated solution to the war and to punish those responsible for massive brutality.

I am bringing this to the attention of the House because I am greatly concerned about the speed with which we are moving ahead to authorize $8.9 billion in assistance to Central America requested by the Reagan administration.

It is up to the Congress to take strong action to halt the escalation of the war in Central America, a war which is expanding under the cloak of "human rights certification." The $8.9 billion aid bill requested by the Reagan administration for Central America would compound all of the problems related to our involvement in El Salvador, and solve nothing.

I hope that Members will give their full attention to the following statement:

A MORAL APPEAL TO CONGRESS FROM RELIGIOUS LEADERS: REPUDIATE CURRENT U.S. POLICY IN CENTRAL AMERICA

As members and leaders of churches in the United States that have a strong sense of unity with the churches in Central America, long histories of partnership in mission with them, a demonstrated concern for the well-being of all the people in the region, and a passionate zeal for the moral integrity of our own nation, we appeal to the members of Congress to repudiate current U.S. policy in Central America; to reject the requests for more aid, other than humanitarian aid; and to insist on a radical change of course in U.S. policy.

We believe that the current policy of providing military assistance to a Salvadoran government that brutally slaughters its own people is immoral.

We believe that current policy is based on false premises and a distorted reading of current history.

Finally, we believe that current policy increases the likelihood of direct U.S. military intervention in Central America.

In our view, unless Congress is prepared to see large numbers of U.S. troops dispatched to El Salvador or Nicaragua, it must repudiate current policy, reject the request for more military assistance, and insist on a negotiated rather than a military solution to the conflicts in the region. Such action by Congress would be both courageous and prudent. In our judgment, such action is also morally required.

Our appeal is prompted by the recent publication of the Kissinger Commission report and the request of the administration, in light of the report, for increased assistance for certain nations in Central America. Our appeal is based on our moral and political assessment of current policy.

The thesis of the Kissinger Commission is that while centuries of poverty, exploitation, injustice and oppression in Central America make the demands for radical social change in the region legitimate, Soviet and Cuban exploitation of the social unrest there poses a threat to U.S. security interests. The commission's proposed solution is for the United States to strengthen the military-dominated governments of El Salvador, Honduras, and Guatemala by providing them significantly increased military and economic assistance, and to further isolate the government of Nicaragua, which the commission alleges is a Marxist-Leninist regime becoming totalitarian.

The report's thesis and major recommendations reflect and seek to justify current U.S. policy. Upon receiving the report in mid-January the President called it "magnificent." In early February he made the thrust of the report's recommendations his own. According to press reports, he called for $179 million more in military aid for El Salvador this year as a FY 1984 supplemental, and $133 million for FY 1985. He also asked for $80 million more for this year in supplemental military aid and $123 million for FY 1985 for other nations in Central America, including Guatemala. He further called for $400 million in supplemental economic aid for FY 1984, and for $1.7 billion in economic aid for FY 1985 ($1.1 billion in cash and $600 million in insurance guarantees); and announced that he would seek $8 billion in economic aid over the next five years as recommended by the commission.

The matter now rests in the hands of the elected representatives of the people in Congress. That body must decide whether to continue its current level of support for U.S. policy in Central America; to grant the President's request for radically increased military and economic assistance; or to insist on a change in U.S. policy.

We appeal to Congress for a repudiation of current policy, a rejection of the request for more assistance, and a demand for a new policy for three reasons:

1. We believe that the current policy of providing military assistance to a Salvadoran government that brutally slaughters its own people is immoral.

There can be no doubt that the government of El Salvador engages in systematic brutality against its own people. According to Tutela Legal, the human rights monitoring office of the archdiocese of San Salvador, government forces and paramilitary forces allied with them murdered 5,142 civilians last year alone. Since 1979 they have committed more than 38,000 such murders and caused the "disappearance" of more than 2,400 additional persons (Americas Watch Report, January 1984). Terror is an instrument of policy in El Salvador.

Even the administration seems to recognize this. In his address to a joint session of Congress on April 27, 1983, the President acknowledged of El Salvador, "Yes, there are still major problems regarding human rights, the criminal justice system, and violence against non-combatants." And the Kissinger Commission, in addition to claiming that progress has been made in many fields, acknowledges that "there is, of course, a darker side as well in El Salvador." "Certain reactionary forces in Central America," the commission says, practice brutal methods of counter-insurgency. "Their common denominator is the systematic use of mass reprisals, and selevtive killing and torture to dissuade the civil population from participating in the insurgency or from providing any help for the insurgents." "These methods," the commission declares, "are totally repugnant to the values of the United States."

Yet the commission recommends significantly increased military assistance for El Salvador, and the President has called for a five-fold increase in military aid for this year and next over what Congress has already granted for this year.

How is this possible? The commission proposes a way it hopes will avoid the moral repugnance of providing the Salvadoran regime guns with which to kill its own people. It recommends that military assistance be made contingent upon demonstrated progress in respect for human rights and other reforms. And the President has promised to link the assistance to progress on human rights provided that the White House continues to "control the spigot" on the funds.

We believe that the hope that these conditionality requirements will transform the Salvadoran government and its security forces is without basis. Our government has tried that escape hatch for over two years without success. In historical experience, the legislative requirement for certification of progress has not so much effected reform in El Salvador as it has tested the ingenuity of the administration in certifying reform. So long as our government interprets the revolution in El Salvador as a superpower confrontation that threatens our national security and credibility, the government of El Salvador can always count on our assistance.

If it is morally repugnant for the government of El Salvador to engage in systematic brutality against its own people, it is surely morally repugnant for the United States to assist it in such brutality. Here moral considerations must outweigh all other types of considerations. Even if all the arguments so reminiscent of Vietnam about threats to U.S. security, falling dominoes, and tests of U.S. worldwide credibility were true (and we do not find them persuasive), it would still be morally wrong for the United States to provide the Salvadoran government the instruments with which to terrorize, torture, and murder its own people. No end, however "strategic," justifies the torture of one little child. For our moral integrity as a nation, we dare not support further bloodshed.

2. We believe that current policy is based on false premises and a distorted reading of current history.

The administration interprets the social upheaval in Central America as a "Soviet and Cuban backed Sandinista campaign to overthrow the other Central American countries and eventually to incorporate the region into the Soviet orbit" (*White House Digest*, June 1, 1983). The Kissinger Commission declares "the Soviet-Cuba thrust to make Central America part of their geostrategic challenge is what has turned the struggle in Central America into a security and political problem for the United States and for the hemisphere."

We reject this reading of the historical situation on five grounds.

First, it fails to distinguish adequately between the social conditions of injustice and oppression out of which the revolution has emerged, and the Marxists who have helped organize and defend the revolution. To its credit, the Kissinger Commission acknowledges the indigenous roots of Central American unrest. It admits that the Somoza regime in Nicaragua was "hated." It shows modest sensitivity to the years of U.S.-supported right-wing dictatorships that resulted in poverty and inequality. It even declares that we as a nation are not threatened "by indigenous revolutions that use local resources and appeal to local circumstances." But the commission is so consumed by fear of foreign Marxist influences that it subordinates concern for justice to that fear. In the commission's and the administration's view, the presence of foreign influence within a revolution requires that the first objective of U.S. policy be to insure that the insurgents are militarily defeated. We are not persuaded that the "poison" of foreign influence, however extensive, is such as to justify counterinsurgency as the primary response to the demand for revolutionary social change.

Second, this reading of the situation does not perceive and will not entertain the possibility of a Central American government being both Marxist and non-aligned. There is no place in this way of thinking for the type of regime that many scholars of the region believe that the Sandinistas not only are but, if left alone, will continue to be: highly nationalistic and internally-oriented Marxists presiding over a mixed economy in which U.S. trade and investment could continue to play a role, a regime not anxious to be embroiled in foreign disputes. Moreover, this reading ignores the fact that the United States trades with the Soviet Union, seeks military cooperation with China, and guarantees loans to communist countries in Eastern Europe. Current policy recognizes the diversity of Marxist states on the world scene, but asserts that the emergence of a Marxist state in this hemisphere represents a security threat to the United States.

Third, this reading ignores the self-interests of the nationalistic revolutionary forces in Central America. Nationalistic movements struggling to free themselves from domination by one superpower are not likely to submit willingly to domination by another. It would not be in the interests of the government of Nicaragua or the revolutionary forces in El Salvador to become satellites of the Soviet Union, knowing that to do so would invite the powerful wrath of the U.S.

Fourth, this reading ignores the character of the political opposition to the regime in El Salvador, the Democratic Revolutionary Front (FDR). Formed early in 1980, this political counterpart to the Farabundo Marti National Liberation Front (FMLN) includes dissident Christian Democrats, Social Democrats, members of popular organizations, trade unions, professional organizations, student and religious groups. Many of its leaders were in an earlier day praised by Washington as "the moderate center." The commission ignores the platform of the FDR which espouses strict respect for human rights, political pluralism, and popular participation in the management of government. It overlooks the murder of five leaders of the FDR in November 1980, which convinced many who had tried reform from within the system that insurgency was the only option left. And it fails to mention that on August 28, 1981, Mexico and France jointly recognized the FDR and the FMLN as "a representative political force" that must take part in future negotiations to end the conflict.

Finally, current policy is based on a distorted view of U.S. national security. It assumes that the emergence of a Marxist state anywhere constitutes a threat to our security. It does not distinguish vital interests from the peripheral ones, the necessary from the desirable. We concur in the judgment of the scholars associated for Policy Alternatives for the Caribbean and Central America (PACCA) in their new book, Changing Course: Blueprint for Peace in Central America and the Caribbean, that our fundamental security requirement is "the ability to secure our own social experiment at home and pursue it free from external threat." We do not believe that successful revolutions in Central America—in and of themselves—threaten U.S. security.

In sum, we believe that just as in Central America the spectre of communism is being used to justify terrible actions of brutality and inhumanity, so in this country the possibility of expanding Soviet and Cuban influence is being used to justify continuing support for governments that engage in systematic brutality against their own people.

3. Finally, we believe that current policy increases the likelihood of direct U.S. military intervention in Central America.

Recognizing that economic development is impossible in the midst of civil war, the Kissinger Commission recommends increased military assistance so that pro-U.S. regimes can win the war. But during the past four years, the United States has provided the government of El Salvador over $200 million in military assistance, and, in the view of many, at the end of 1983 the Salvadoran military was in the worst shape since the war began. We have little reason to believe that increased military aid would turn the tide of the war militarily, no reason to believe that it would enable the Salvadoran regime to win the hearts and minds of its people. The commission's neat distinction between "brutal" methods of anti-insurgency and "modern, humane" ones, and its appeal for more military assistance on the grounds that it would enable the military to fight a humane counter/insurgency should be recognized by all as rubbish. It is not the lack of adequate equipment that leads the Salvadoran security forces to slaughter noncombatants.

Current policy and the increasingly heavy rhetoric that seeks to justify it are leading our nation deeper into a quagmire. The more the administration magnifies what is at stake in Central America, the more it constricts U.S. policy options. The more it contends that the "triumph of hostile forces" in Central America "would be read as a sign of U.S. impotence," the more it commits itself to insuring a military victory for "our" side. The almost inevitable implication of current rhetoric and policy is that if increased U.S. military assistance does not enable our surrogates to defeat those who threaten our security and credibility, we must do the job ourselves. Current policy is leading us straight toward a tragic choice of our own making—a self-proclaimed defeat of major proportion or a direct U.S. military intervention.

Bishop John Hurst Adam, African Methodist Episcopal Church.

Dr. James E. Andrews, Co-stated Clerk, Presbyterian Church (U.S.A.)

James Mase Ault, Bishop, The United Methodist Church, Pittsburgh, PA.

Dr. Robert C. Campbell, General Secretary, American Baptist Churches, U.S.A.

The Reverend C. J. Malloy, Jr., General Secretary, Progressive National Baptist Convention, Inc.

The Reverend Dr. Edwin G. Mulder, General Secretary, Reformed Church in America.

Dr. Robert W. Neff, General Secretary, Church of the Brethren.

Vern Preheim, General Secretary, General Conference Mennonite Church.

Dr. Avery D. Post, President, United Church of Christ.

The Most Reverend Metropolitan Philip Saliba, Antiochian Orthodox Christian Archdiocese of North America.

Dr. Kenneth L. Teegarden, President, Christian Church (Disciples of Christ)

Dr. William P. Thompson, Co-stated Clerk, Presbyterian Church (U.S.A.)

29 February 1984

Dear Member of Congress:

We, the undersigned religious and non-governmental organizations, call on you to support the search for a negotiated solution to Central America's crisis. As part of this search, we urge you to reject the massive amounts of aid the Administration is requesting to continue its current policy in the region.

In support of current policy, the United States has provided the nations of the region over $1 billion in the last three years. The results are dismal:

- a bloody stalemate in El Salvador and a U.S.-sponsored war in Nicaragua which threaten to engulf the region;
- nearly 40,000 non-combatant civilians murdered in El Salvador;
- a seemingly permanent U.S. military presence in Honduras;
- widespread corruption and waste in the Economic Support Fund, military and development assistance, and food aid programs;
- a large number of Central Americans displaced and seeking refuge, both in the U.S. and within the region; and
- devastation and collapse of the region's economy.

Negotiations to bring peace to the region are urgently needed. Prospects for negotiation, though, are undermined by non-humanitarian U.S. aid programs. As long as intransigent elements in El Salvador and Honduras can count on the continued flow of cash to their governments and weapons to their armies, they will obstruct efforts to negotiate a cease-fire and a political solution to the region's crisis. Continued U.S. funding of Nicaraguan counterrevolutionaries also represents a major obstacle to peace in Central America.

We are unalterably opposed to the provision of any assistance — economic or military — which serves to promote military solutions in Central America. Additional aid should be withheld until negotiations as proposed by the Contadora Group are well under way. We believe that the Contadora process — involving as it does, the immediate neighbors of those countries engaged in conflicts — is key to the achievement of a peaceful settlement.

Although the Administration has appealed for bipartisan support of its policy toward Central America, it has continued to demonstrate an alarming lack of good faith in dealing with the Congress. We therefore strongly urge you and other Members of Congress to exercise your budgetary authority to check the administration's increasingly runaway policy.

U.S. policy in Central America is at a crucial fork in the road. Down one path is regional war, probably involving U.S. troops. Down the other is the negotiated solution sought by the great majority of the region's people. Only strong action by Congress can lead us down the path to peace and justice. Again, to promote a settlement, we urge you to withhold all aid that serves to prolong the military conflict.

Sincerely,

AMERICAN BAPTIST CHURCHES, U.S.A.*

AMERICANS FOR DEMOCRATIC ACTION

AMERICAN FRIENDS SERVICE COMMITTEE *

BENEDICTINES FOR PEACE *

CENTER FOR INTERNATIONAL POLICY

CENTER OF CONCERN *

CHURCH OF THE BRETHREN, WASHINGTON OFFICE *

CHURCH WOMEN UNITED*

* = religious bodies

* CLERGY AND LAITY CONCERNED
COALITION FOR A NEW FOREIGN AND MILITARY POLICY
COMMITTEE FOR A SANE NUCLEAR POLICY (SANE)
CUBAN-AMERICAN COMMITTEE
DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES
* FRIENDS COMMITTEE ON NATIONAL LEGISLATION
FUND FOR CONSTITUTIONAL GOVERNMENT
* INTERFAITH ACTION FOR ECONOMIC JUSTICE
* JUBILEE, INC./THE OTHER SIDE
* LEADERSHIP CONFERENCE OF WOMEN RELIGIOUS, EXECUTIVE BOARD, REGION I
LEAGUE OF UNITED LATIN AMERICAN CITIZENS
* MARYKNOLL FATHERS AND BROTHERS
* MEDICAL MISSION SISTERS, SECTOR NORTH AMERICA
* MENNONITE CENTRAL COMMITTEE - U.S.
* NATIONAL ASSEMBLY OF RELIGIOUS WOMEN
NATIONAL CONFERENCE OF BLACK LAWYERS
* NATIONAL OFFICE OF JESUIT SOCIAL MINISTRIES
* NETWORK (A CATHOLIC SOCIAL JUSTICE LOBBY)
* NEW JEWISH AGENDA
* OFFICE OF PUBLIC POLICY, WOMEN'S DIVISION-GENERAL BOARD OF GLOBAL MINISTRIES, UNITED METHODIST CHURCH
OXFAM AMERICA
* PRESBYTERIAN CHURCH (USA), WASHINGTON OFFICE
* QUIXOTE CENTER
* RELIGIOUS TASK FORCE ON CENTRAL AMERICA
* SISTERS OF MERCY OF THE UNION, MERCY CENTER WASHINGTON
* SISTERS OF ST. JOSEPH OF PEACE
* SISTERS OF ST. JOSEPH OF SPRINGFIELD, EXECUTIVE COUNCIL
* SISTERS OF ST. JOSEPH/THIRD ORDER OF ST. FRANCIS
* UNITARIAN UNIVERSALIST ASSOCIATION OF CHURCHES IN NORTH AMERICA
* UNITARIAN UNIVERSALIST SERVICE COMMITTEE
* UNITED CHURCH OF CHRIST/OFFICE OF CHURCH IN SOCIETY
UNITED STATES STUDENT ASSOCIATION
WOMEN STRIKE FOR PEACE
WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM, U.S. SECTION
* CHURCH WORLD SERVICE
* EASTERN REGIONAL TEAM: SISTERS OF THE HOLY CROSS
* EXECUTIVE COMMITTEE OF THE SISTERS OF CHARITY OF NAZARETH
* LEADERSHIP CONFERENCE OF WOMEN RELIGIOUS, EXECUTIVE BOARD, REGION IV
* LUTHERAN WORLD MINISTRIES
* MISSION CENTER: MISSIONHURST CICM
* EPISCOPAL PEACE FELLOWSHIP
* INTERRELIGIOUS TASK FORCE ON EL SALVADOR AND CENTRAL AMERICA

RECESS

Senator KASTEN. Thank you for your testimony.

Our next witness is Ms. Robin Madrid from the American Arab Anti-Discrimination Committee. Is she here?

[No response.]

I think we will adjourn for 10 or 15 minutes. I will vote and then come back and begin with Werner Fornos of the Population Institute.

[A brief recess was taken.]

POPULATION INSTITUTE

STATEMENT OF WERNER FORNOS, POPULATION INSTITUTE

POPULATION PROGRAMS IN THIRD WORLD COUNTRIES

Senator KASTEN. The subcommittee will reconvene.

I just want to apologize, not only to our present witness but to all of you for the delay. We will proceed with Werner Fornos of the Population Institute. We are very happy to have you with us again this year.

Mr. FORNOS. Thank you, Senator Kasten.

I have just had a cup of coffee, and it reminded me to see whether we can get a cup of coffee more for American investment in population programs. At the moment, we are spending one hamburger per American on international population problems, a problem which intensified during the last year in the fact that the world grew by 82 million people.

I would ask permission to have my formal statement inserted in the record, and that we just take this opportunity to dialog a little bit on six points, and I will try to stay within the 10 minutes.

Senator KASTEN. Without objection, your entire statement will be printed in the record.

Mr. FORNOS. Thank you, Mr. Chairman.

When I mentioned the "Big Mac" to you, I was being a little facetious, but we are spending 95 cents per capita on international population problems, mostly devoted—almost entirely devoted, as a matter of fact, to voluntary programs, with our programs now reaching people in Third World countries numbering over 135.

These programs are at the request of these nations, and though we have seen some significant movement, I would like to make the point that the job until now has been relatively easy. We entered, not only the United States but also almost all of the developing countries, into the field of trying to limit family size and to fulfill people's desires for having smaller families at a time when the families of the world were nine, eight, and seven.

With all of the work that has gone on in the last 11 years, we have seen that come down to six, five, and four. I submit to you that that was easy. Your own family, and the family of most of us in this room, we now see a much smaller family size. In the current generation, not only in this country but around the world, the desire is three, two and one.

But the job is going to be very difficult in societies that are so very illiterate. It is going to be very difficult in societies that lack basic health services, and whose economic rate of growth is slower than the population growth rate. I know you visited President Mubarak, and the problem in Egypt where today you have 45 million people, doubling by the year 2010 to 90 million. We know what kind of burdens come with that.

U.S. INVESTMENT IN INTERNATIONAL POPULATION ASSISTANCE

The current U.S. investment in international population assistance is $240 million. The administration has asked for $250 million, and also an additional $5 million in the supplemental under the Kissinger plan. We would hope that the request in the Kissinger plan dealing with the provision of additional family planning service for 600,000 additional couples in the Central American region of those seven countries would be granted by your committee, principally because there is no additional geographical growth that can take place in those countries.

If you take a balloon and blow into it, like you and I probably did in our playground days, and it has capacity of 5 pounds and get it to 7 pounds, the result is inevitable, it is going to blow up. We see the tremendous problems in that region being terribly intensified by the rapid population growth.

So we are before you asking for the 1985 appropriation to see an increase of $70 million, that amounts to that mythical cup of coffee that I talked about, but it in any imaginable term reaches the amount that is needed.

FAMILY PLANNING SERVICES

Today, we find around the world that 90 million Third World women are being provided family planning education and services at a cost of about $1.1 billion, that represents 21 percent of the current usage rate of contraceptives in the Third World.

In light of the fact that the World Fertility Survey has identified that there are some 600 million women in the world who do not want any more children, but lack the means and the education to do so, that roughly suggests an expenditure, not only by the United States but other industrialized nations, of around $4.4 billion. Obviously, we are not going to get to that point given the current economic situation.

However, every dollar invested in the population programs saves a significant amount of money in bailout funds that are required at a later date from our country and others, and it was documented in 1965 that for every 5 cents spent on population assistance, you saved a dollar in development assistance.

I would like to stress the point that in looking at the population programs, we try to give much more attention to using private intermediary agencies in delivering our family planning programs overseas. They respond quicker. They are more efficient from the standpoint of less bureaucratic ties.

This in no way suggests any inefficiency on the part of AID. On the contrary, under the current administration, tremendous attempts have been made to streamline this program and to move it up into the field.

But the intermediary agencies, both the private voluntary organizations and the United Nations Fund for Population Activities, are valuable partners, and I think the level of expenditures and contributions to those agencies ought to be significantly increased to speed up the delivery of family planning services.

FAMILY PLANNING PROGRAMS

In the language of your committee, I would like to see us admonish the Agency for International Development, as well as all of the contractors, to pay much more attention to including women in management positions in the family planning program.

The family planning program covers all methods of family planning, and we see some major breakthroughs. I have brought one with me today to share with you. This happens to be a Norplant, which is a new contraceptive method. It is being marketed throughout the world. It is a little soft plastic implant that you see going into the subdermal regions of the arm.

The entire production marketing and transportation to the Third World costs about $5 and gives you 5 years of protection against unwanted pregnancies. It has a better effectiveness rate than even the oral contraceptive. It is less expensive in its delivery. It doesn't have the resupply problem that other contraceptives have.

There are things happening, but all of it is much too slow, and we have to try to help AID find a way of getting new, more effective, safe, and voluntary conceptives out into the field.

Besides hoping that we might get some language addressing the greater use of women in this field, in managerial positions, I also think that we need to look at the effectiveness of the United States delegation to the upcoming World Population Congress.

On August 6 of this year, we will have 150 nations gathering in Mexico City. They will be reviewing what has happened in the last 10 years, since Bucharest Conference in Implementing the World Population Plan of Action, and setting priorities for what needs to happen in the next 14, 15, maybe even the rest of this century.

I submit to you, Senator, that we have learned why people get pregnant, and how they get pregnant. I think that we need to very strongly lean upon the executing agencies to bring family planning out of the closet, and instead of conducting more and more studies on how people get pregnant or why they get pregnant, that we see very scarce U.S. taxpayers' dollars used in providing family planning services.

I know this feeling is shared by the Administrator of AID, and UNFPA, but I think that it needs to be reinforced all the time. If there are 600 million women who no longer want to have any more children, who did not want the last child that they have, and who want to implement voluntary family planning programs, that to me is the most cost effective way of solving the world population problem.

If we serve just 100 million of those people, a doubling during this decade from 90 million to 200 million, we would find that the world would stabilize at 8 billion, rather than at the currently projected 10 to 12 billion.

Thank you very much.

[The prepared statement of Mr. Fornos follows:]

PREPARED STATEMENT OF WERNER FORNOS

PRESIDENT

THE POPULATION INSTITUTE/POPULATION ACTION COUNCIL

Mr. Chairman, I appreciate the opportunity to provide this statement to the Senate Foreign Operations Subcommittee of the U. S. Senate Committee on Appropriations. I am Werner Fornos, President of the Population Institute, the largest citizens' network seeking to bring world population into balance with global resources. The Population Institute is a private, non-profit organization that does not seek or receive funding from the United States Agency for International Development or the United States Government.

We have reached a crucial period in the effort to accelerate the pace at which global population will eventually stabilize. Some 82 million people were added to the world last year, as compared to 77 million a decade ago. Ninety percent of this population growth is occurring in the developing world --- the poorest countries of the world --- which is burgeoning by one million people every five days. At the current growth rate of 2.1 percent, developing world population will double to 7.2 billion in the next 33 years.

The Population Institute is seeking an appropriation of $320 million for U.S. international population assistance in Fiscal Year 1985. This would amount to an $80 million increase over the current appropriation of which $70 million is needed to meet the backlog of worthwhile, but unfulfilled, population program requests and an additional $10 million is needed to meet the recommendations of the Kissinger Commission for population assistance to Central America.

Few issues have the impact on the dignity and welfare of the individual and the family, and at the same time, on the future of humanity, as that of excessive population growth.

In most of the world, if a couple is unable to rationally plan the size and spacing of its family, many other possibilities are also foreclosed --- including the ability to provide the family with a nutritional diet, health care, education and housing.

If a country cannot balance its population with its resources, it will also find it difficult to assure food, housing, employment and social services for its people. The result almost certainly will be social unrest and increased levels of uncontrolled migration --- both from the country to the city and across borders to neighboring and distant countries.

In each case --- for the family, the country, and the world --- the lack of choice for individuals will preclude many other choices, and generally result in a lower standard of living for all.

In 1930, the world's population was two billion. By 1975, only 45 years later, it reached four billion. Even with increased efforts to reduce fertility, the United Nations projects that global population will increase by nearly another two billion people before the end of this century.

The same projections indicate a leveling off of world population at just over 10 billion. However, if greater resources were dedicated to family planning efforts now, and if, as a consequence, a global average of a two-child family could be reached by the year 2000, world population would stabilize at about 8 billion by the middle of the next century. Note that the difference in these two projections is equal to the total world population of only 50 years ago.

There are reasons for optimism. Attitudes of developing country leadership have changed substantially. A decade or so ago, many Third World leaders were suspicious or hostile towards family planning for ideological, nationalistic or religious reasons. Today, most leaders recognize that rampant population growth makes it more difficult for a country to attain its social and economic objectives.

About 50 developing countries have adopted population programs which include the provision of family planning services. These countries account for most of the population which lives in the Third World.

There have been improvements in the quality and variety of contraceptive options that are made available to couples in developing countries. New developments, such as injectables and contraceptive implants, promise even more and better options in the near future.

While external assistance for family planning is still critical, developing countries put up approximately four dollars of their own resources for every one dollar contributed from abroad.

There are positive results: Birth and population growth rates have begun to fall in a number of developing countries, where there have been effective family planning programs over the past 15-20 years. These countries include Indonesia, Thailand, Colombia, Costa Rica, Panama, the Philippines, and Korea.

But there are no grounds for complacency. Population growth rates in many developing countries have declined only slightly, and in some countries in Sub-Saharan Africa and the Middle East already high population growth rates are actually climbing.

Furthermore, it is still difficult to convince a number of developing world governments --- faced with deteriorating economic conditions --- to dedicate adequate resources to population programs. This situation is not only due to scarce resources, but also due to the fact that the benefits of family planning programs are long term in nature.

Another serious obstacle that must be overcome is the woefully inadequate delivery of family planning services in a number of developing countries, particularly in the rural areas. This, in turn, results in high rural population growth, rural to urban migration, and political unrest in the cities.

International development assistance in general and support for family planning programs in particular has not kept pace with development needs. Despite last year's $29 million increase in U.S. international population assistance, this is especially true of the United States. For the two decades, our development assistance has steadily declined in real terms and as a share of our Gross National Product.

The harsh reality is that hundreds of millions of people in the developing world desire to determine the size and spacing of their families, but lack the education and the means to implement this basic human right, which we take for granted. Individually, this is demeaning to them as human beings, collectively, this is a serious threat to the human species. To help alleviate this situation, the Population Institute urges the United States Government to consider these following recommendations:

1. U.S. government population resources, expended directly through bilateral programs, should be directed, where feasible, toward the 18 countries cited by the Office of Technology Assistance as contributing to 75% of Third World population growth.
2. The Agency for International Development should concentrate its new population program funds on those countries and organizations capable of moving resources rapidly and efficiently. AID should also extend a major effort to free those population resources now in the pipeline as quickly as is consistent with effective program implementation.
3. Family planning programs should make available the widest possible variety of effective, safe, inexpensive, and easily deliverable contraceptives. U.S. funded biomedical research should concentrate on contraceptives which meet those criteria, and U.S. government legislation and regulations should assure that all such

contraceptives can be included in family planning programs.

4. The Agency for International Development should emphasize programs which make available actual family planning services. Additional demographic and social science research should be supported only when it is absolutely necessary to facilitate and improve the acceptance and delivery of such services.
5. The U.S. government should support programs promoting the additional involvement of women at the policy level in family planning programs.
6. U.S. government programs should give increasing support to the efforts of non-governmental organizations that are playing a critical role in the family planning field.
7. Congress should continue to assure that at least 16% of U.S. population assistance funding is channeled through the United Nations Fund for Population Activities. The Fund has a solid record of accomplishment and has cooperated closely with the U.S. government; moreover, its programs reach many more countries with serious problems of population growth than do U.S. bilateral programs.
8. Congress should use its influence to recommend that the Administration send an appropriately high level delegation to the International Population Conference to be held next August in Mexico City, one that will play an active and constructive role in this important global

conference which will review, revise and strengthen the World Population Plan of Action adopted at the 1974 World Population Conference in Bucharest.

Mr. Chairman, this Subcommittee spends many hours pondering how to best appropriate international assistance in order to effectively alleviate poverty, hunger and malnutrition, unemployment, environmental degradation, illiteracy, sickness and disease, and a host of other problems that beset the developing world. These efforts are all necessary and important. But by and large they are the symptoms of a much greater problem --- that of rampant world population growth.

Recently, William Golding, the 1984 Nobel laureate in literature, said that he believes the threat of overpopulation is greater than that of nuclear war. He said, "Reducing population growth is the only way to save the planet from self-destruction. If we don't reduce our population, nature will do it for us and nature's way is never kind."

ABORTION QUESTION

Senator KASTEN. Thank you very much.

One of the important issues that relates to population planning assistance, is that of abortion, or in some cases the question of sterilization.

Do you agree with me that all of us should do our best to keep the issue of abortion separate from and out of the population planning debate?

Mr. FORNOS. Yes, I do. One hundred and five House Members wrote to President Reagan to that effect about a year-and-a-half ago, to absolutely make sure that the administration keeps the two issues separate.

I think if someone happens to be opposed to abortion, their number one line of defense is to prevent that unwanted pregnancy in the first place through education and through prevention of unwanted pregnancies. Perhaps the greatest means of lessening abortion, and the recourse to abortion is to make family planning available.

Senator KASTEN. It is my concern that often the relationship in terms of lobbying groups, and whatever, that often the issue of abortion is linked with the issue of population planning. It is my personal view that the support for population planning programs is significantly diminished, at least diminished in the Congress, by that linkage. Do you agree with me, or do you disagree with me on that assessment?

Mr. FORNOS. The short answer is, yes, I agree with you. I would like to mention to you that the Population Institute, which has very carefully made this division, not only has more than 30 members in every congressional district, but it also has a membership in 156 countries around the world, and has a bipartisan advisory committee made up of Republicans, Democrats, liberals, and conservatives, and most of them agree with you, too.

Senator KASTEN. I thank you for your testimony, and I also thank you very much for your work with the subcommittee over the past year. We look forward to working with you, and we appreciate your testimony.

Mr. FORNOS. Thank you.

Senator KASTEN. Next is Robin Madrid, if Robin Madrid is in audience.

Robin Madrid is not in the audience. We will call Mr. James R. Sheffield, president of the United States Committee for UNICEF.

Mr. Sheffield, it is a pleasure to have you before the subcommittee once more, and we look forward to your testimony.

UNITED STATES COMMITTEE FOR UNICEF

STATEMENT OF JAMES R. SHEFFIELD, PRESIDENT, UNITED STATES COMMITTEE FOR UNICEF

CHILD SURVIVAL REVOLUTION

Mr. SHEFFIELD. Thank you very much, Mr. Chairman, for the opportunity to return to talk about the Child Survival Revolution and the role being played in it by the United Nations Children's Fund, or UNICEF.

As you know, I am president of the United States Committee for UNICEF, a national citizens organization which was established in 1947 to inform and educate the American people and our government on the work of the Children's Fund and the special needs of children worldwide, as well as to raise funds to address these needs.

The U.S. Committee for UNICEF is proud to be supported by perhaps the largest volunteer network, roughly 3 million Americans, of any humanitarian cause that we know of in the world, not to mention the countless millions more Americans who contribute each year through their direct donations, the use of UNICEF greeting cards, the trick or treating, and participating in other activities such as the nationwide premiers of the epic film Gandhi which were dedicated to UNICEF.

Mr. Chairman, the economic recession which has meant unemployment, budget constrictions, and unrealized dreams for millions of

Americans has not been unique to our country. Indeed, the trauma which we Americans suffered is but a pale shadow of the tragedy which has afflicted hundreds of millions of the world's poorest people, and whenever people suffer, children suffer most.

Every year, more than 15 million infants and young children die needless deaths from the consequences of poverty and malnutrition. In the 8 seconds it took me to read that sentence, four children died.

Today, several hundred million infants and young children are disabled, and hundreds of millions more will never quite achieve the level of health, strength, mental ability, and potential which might otherwise have been theirs, had they had sufficient and proper nutrition, sanitation, early childhood stimulation, education, and medical care in their formative infant and childhood years.

But a little over a year ago, UNICEF proposed that mothers and children need not be abandoned, even in difficult times. UNICEF articulated a message of hope for those hundreds of million of children and for their families and for their countries which must ultimately turn to them as their most valuable resource for development and progress.

In its report on the state of the world's children last year, UNICEF outlined a series of recent advances in both biological sciences and social organization which have the potential for protecting the health and lives of millions of children who would otherwise fall victim to the ravages of malnutrition, infection, and ignorance, and which due course help to slow down the population growth as well.

TECHNIQUES FOR HEALTH CARE AND BASIC SERVICE ACTIVITIES

Attention was particularly focused on accelerating the spread of four simple, low cost techniques which are integral parts of the primary health care and basic service activities which UNICEF and other development assistance agencies have been promoting for some time. These are:

Growth monitoring of infants by regularly plotting their weight on simple charts so that mothers can literally see the otherwise invisible onset of malnutrition;

Oral rehydration therapy to treat the dehydration which results from severe diarrhea and which each year claims more than 5 million young lives;

The promotion of breast feeding as the safest and most nutritious infant food; and finally

Immunization to protect roughly 10 million children a year from death and disability from six major communicable diseases.

Three other program priorities have also been highlighted. These are food supplements, family spacing, and female education, which can contribute significantly to improving child health and reducing infant mortality as well. However, in comparison with the four steps outlined above, food supplements are more expensive, family spacing is more difficult, and extending female education is both expensive and difficult, although we clearly see it as the key to all of the other steps to a certain degree.

UNICEF has explained that none of these technologies are really new, although the technology by which some of them are applied has been recently enhanced, or by the appreciation of their value, as in the case of breast feeding, was recently strengthened.

What is new is the increase in social organization which makes it possible to reach people with them. This is exemplified by the expansion of primary health care services, the increase of literacy, the growth in the number of effective women's organizations worldwide, and the phenomenal spread of communications media, especially the transistor radio.

Evolving social and administrative networks now provide countries with the opportunity of spreading benefits to the poorest in their society. It is the combination of techniques with mobilizing existing resources which could save a high proportion of children's lives now being lost, if the world wants to do so.

Mr. Chairman, I am pleased to report to you that we are now seeing signs that the world may indeed want to do so.

In the current state of the world's children report evidence is put forward from around the world that successes and failures, and the lessons to be learned from each, and chronicles the commitments that have been made in the past year by leaders, organizations, and institutions. What has happened is cause for much excitement and hope.

CHILD SURVIVAL REVOLUTION

Much of this stems from the growing signs that the opportunity, which has been called a Child Survival Revolution, has rapidly grown so much larger than UNICEF. It is becoming an integral part of the priorities of many other multilateral and bilateral agencies, and of programs of nongovernmental, private voluntary organizations.

It has been covered widely by the information services and the media, both of governments, of churches, of religious organizations, so that it now is clear that the Child Survival Revolution is taking its place among the commitments made by people.

Child Survival Revolution is basically not a UNICEF program. UNICEF can articulate the potential to those who will listen, and can help translate ideas into action with the very limited resources which governments and concerned individuals entrust to UNICEF's administration. But in the last analysis, the Children's Fund can only claim to be one of the many forces which must join together to make this revolution real, and to give children the chance which they would otherwise not have.

The growing multitude that now includes many of the obvious participants, like the World Health Organization, UNDP, World Bank, and IDA. It also includes many bilateral assistance agencies and a growing number of NGO's, voluntary groups, professional associations, and groups like the League of Red Cross Societies, the International Pediatrics Association, the World's Scout Conference, and the Catholic Church.

COMMITMENT OF CATHOLIC CHURCH IN PROGRAM

To cite several examples of this extraordinary collaboration, I would first like to cite the growing commitment of the Catholic Church to involve its local parishes in assuring the extension of the child saving techniques.

In Colombia, for example, the Conference of Bishops has recently published a guide for local priests, instructing them to ask prospective brides and grooms, when they come for premarital counseling, if they will know how to save their children from dehydration, and will the mother give her children the best nutrition available—mother's milk.

When the parents bring their child for baptism, the priest is to ask if the child has been immunized, and will the parents be monitoring the child's weight with monthly weighings on the growth chart? All of this stems from the Vatican's declaration last year that:

"The entire Catholic aid network will lend its maximum support to these important, simple proposals to improve the health of hundreds of millions of children."

My second example is the recent news that the 7-year "Nestle Boycott" is being suspended. I do not think it is inaccurate to suggest that the understandings which have been reached between the International Baby Formula Action Coalition and the Nestle Corp. are reflective of Nestle's recognition that past practices by much of the infant formula industry have been unduly detrimental to mothers' disposition toward breast feeding their babies, and that those practices ought to be altered.

It is important to note that when the sides, so-called, of the boycott dispute decided that it was time to try to resolve their differences, Nestle proposed that UNICEF serve as the broker in helping the two sides to mediate their disagreements, and it was UNICEF's Special Coordinator for Child Survival who was asked to chair the meetings.

The third example I would like to mention briefly occurred this month in Bellagio, Italy, as UNICEF Executive Director James Grant, the Director General of the World Health Organization, Dr. Mahler, and the President of the World Bank, Mr. Clausen, convened a meeting of 30 of the world's leading authorities on health and development assistance to consider the initiation of a massive thrust to universalize the protection of the world's children through the widespread application of the effective tools now available, and the improved methods being rapidly developed through biotechnology.

This meeting which included the Administrator of USAID, Mr. McPherson, as well as other development assistance heads, served to mobilize support and financing for projects, programs, and research in child health, including scientific and economic review of the activities of the group.

The initial focus will be on the extension of universal child immunization, Mr. Chairman, and we are now preparing a report on the outcome of this meeting that we would like to submit for the record.

ROLE OF CONGRESS

The U.S. Government is not uncounted in these numbers. The Congress has already played a vital role. Your adoption of S.J. Res. 111—the Joint Resolution affirming the support for child survival and health revolution as U.S. policy was the first legislative endorsement of this opportunity by any national parliament, thus greatly strengthening UNICEF's position in advocating its pursuit among governments, the media, and other individuals.

What must be done?

Obviously, in the final analysis, the battle for the lives of children will be fought in the huts and the villages which are the homes for the world's families. The issue is not whether children can be saved, but whether parents will know that their children can be saved and will know how to do it.

What do we ask of you?

MAINTAIN PRESSURE AND RESOURCES

First, keep up the pressure. I would hope that this subcommittee's report to the full committee will include language repeating the Congress' expectation of a full U.S. support for the child survival revolution. Also each of you on the subcommittee serves on other committees and subcommittees, ask that the U.S. representatives of the World Bank, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, when they approve loans and programs in their countries, ask what the Child Survival and Health component of these programs is.

When proposals come before your subcommittee for multibillion dollar crusades to save regions, ask how much of that money will go toward saving children's lives, saving the most important security resource these countries have to protect and to stabilize their societies. Not much is being done, and we want to legislate that it be done.

Second, we want to ask you to keep up the resources. The $52.5 million which the Congress currently provided for the U.S. contribution to UNICEF is a health step toward our country's fair share for UNICEF. Despite the fact that UNICEF is the agency most frequently cited by Ambassador Kirkpatrick, by the administration, by the Heritage Foundation, and by tens of millions of Americans, as the U.N. agency most completely consistent with America's ideals and goals, and perhaps the best run, most efficient and effective international agency—despite all of that, UNICEF and UNDP remain the major U.N. agencies to which the U.S. contribution remains well below its 25 percent "fair share."

We hope that the Congress will continue to move toward correcting this deficiency. The U.S. Committee for UNICEF urges that the U.S. contribution to the UNICEF, UNDP, and the World Bank's IDA be similarly strengthened to assure their capacity to pursue these opportunities.

Senator KASTEN. I will ask that you summarize the remainder of your statement, please.

Mr. SHEFFIELD. Certainly.

We are aware that Mr. Leach and other Members of the House, in collaboration with Bread for the World, proposed an additional special allocation of $50 million to UNICEF, and $50 million for the AID Health Account. The U.S. Committee for UNICEF, of course, would welcome and urge any additional resources that can be made available. We think that this is very important for the Child Survival Revolution, both for bilateral agencies and multilateral agencies.

As I mentioned before, we want to underscore our feeling that this is not and should not be seen as money for UNICEF, but it is vital resources for any effective activity addressed by other agencies significantly accelerating the reduction in infant mortality.

We would like to finally emphasize that with your support, children will still have a chance not just to survive, but to grow in health as productive, self-reliant human beings. That chance does not exist solely because of what this Congress can do, but I have little hesitation in saying that without what the Congress has done, this year and in the years ahead, that chance would quickly diminish to a tragic waste of human lives and a cruel burden on tomorrow's world.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Sheffield follows:]

PREPARED STATEMENT OF DR. JAMES SHEFFIELD
PRESIDENT
UNITED STATES COMMITTEE FOR UNICEF

Thank you, Mr. Chairman, for the opportunity to return to talk about the Child Survival Revolution and the role being played in it by the United Nations Children's Fund (UNICEF).

As you know, I am the President of the United States Committee for UNICEF - a national citizens organization which was established in 1947 to inform and educate the American people and our Government on the work of the Children's Fund and the special needs of children worldwide, as well as to raise funds to address those needs. The U.S. Committee is proud to be supported by perhaps the largest volunteer network - 3 million Americans - of any humitarian cause in the world, not to mention the countless millions more Americans who contribute each year through their direct donations, use of UNICEF greeting cards, Trick or Treating, and participation in fundraising activities like the nationwide premieres of the epic film "Gandhi" which were dedicated to UNICEF.

Mr. Chairman, it is no news to any American that these have been difficult times, The economic recession which has meant unemployment, budget constrictions, and unrealized dreams for millions of Americasn has not been unique to our country. Indeed, the trauma which we Americans suffered is but a pale shadow of the tragedy which has afflicted hundreds of millions of the world's poorest people. And whenever people suffer, children suffer most.

While we are of course relieved that economic conditions in this country have begun to improve, that is not the case for scores of millions of families in poor countries throughout the world.

In times like these, it is of course not surprising that the assis tance which governments are able to extend to the more vulnerable is reduced. The tragedy is that it is in times like these that assistance is most needed. Constrictions in economies and government services not only reduce support to the poor, but also reduce the capacity of the poor to fend for themselves. As the earning power of the poor declines, so do health and nutrition.

When hard pressed, society too often concludes that it must focus on helping those who are adversely affected by the economy, but are still "within reach" of viability, by abandoning those who are beyond that immediate reach. In effect, this means "mothers and children last" into the lifeboats.

The tragedy in this, which must invariably return to haunt us for years and generations to come, is that in abandoning poor mothers and poor children, society not only condemns far too many children to death, but also condemns itself to a cruel and costly cycle of weakness, ill-health, and permanent disability for too many more children who will suffer, but not die, from the malnutrition and disease which are the fate of the abandoned poor.

Every year more than 15 million infants and young children die needless deaths from the consequences of poverty and malnutrition. In the eight seconds it took me to read that sentence, four children died.

Today, several hundred million infants and young children are disabled, and hundreds millions more will never quite achieve the level of health, strength, mental ability, and potential which might otherwise have been theirs had they had sufficient and proper nutrition, sanitation, early childhood stimulation, education, and medical care in their formative infant and childhood years.

But a little over a year ago, UNICEF proposed that mothers and children need *not* be abandoned, even in difficult times. UNICEF articulated a message of hope - even at low cost - for those hundreds of millions of children...and for their families...and for their countries which must ultimately turn to them as their most valuable resource for development and progress.

In its 1982-83 report on *The State of The World's Children*, UNICEF outlined a series of recent advances in both biological science and social organization which have the potential for protecting the health and lives of millions of children who would otherwise fall victim to the ravages of malnutrition, infection, and ignorance, and which would, in due course, help to slow down population growth as well.

Attention was particularly focussed on accelerating the spread of four simple, low-cost techniques, which are integral elements of the primary health care and basic services activities which UNICEF and other development assistance agencies have been promoting for some time. These are: *growth monitoring* of infants by regularly plotting their weight on simple charts, so that mothers can "see" the otherwise invisible onset of malnutrition; *oral rehydration therapy*, to treat the dehydration which results from diarrhoea, and which each year claims five million young lives; the promotion of *breastfeeding* as the safest, most nutritious infant food, and *immunization* to protect 10 million children a year from death or disability from six major communicable diseases.

Three other programme priorities were also highlighted - *food supplements*, *family spacing*, and *female education* - which can contribute significantly to improving children's health and reducing child mortality. However, in comparison with the four techniques outlined above, food supplementation is more expensive, family spacing is more difficult, and extending female education is both.

UNICEF outlined that none of these techniques is truly "new", although the technology by which some are applied has been recently enhanced, or the appreciation of their value - as in the case of breastfeeding - recently strengthened. What is new is the increase in social organization which makes it possible to reach people with them. This is exemplified by the expansion of primary health care services, the increase in literacy, the growth in the number of women's groups, and the phenomenal spread of communications media and transistor radios throughout the third world. Evolving social and administrative networks, reaching into villages and squatter settlements, provide countries with the opportunity of spreading benefits to the poorest in their societies. It is the combination of the techniques with mobilizing existing resources and capacities which could save a high proportion of the children's lives now being lost - if the world wants to do so.

Mr. Chairman, I am pleased to report to you that we are now seeing the signs that the world may, indeed, want to do so.

In December 1982, Secretary-General Janier Perez de Cuellar appealed to "national leaders, to communicators, to health care workers and to concerned insititutions and individuals" to "take imaginative steps to heal some of the most tragic wounds of underdevelopment and poverty".

He cited the opportunities outlined in The State of the World's Children report, and invited the world to respond. Throughout 1983, the responses which have been heard in rhetoric and seen in action show that, even in times of hardship, the world has shown signs that it is willing to seize this opportunity for a revolutionary breakthrough in children's prospects for survival and good health.

This December, the Secretary-General of the United Nations was able to report:

> "Evidence accumulates that these and other such simple low-cost interventions are being extended both by governments and community action groups, with the co-operation of the media and other forms of mass communication. Government leaders from a wide range of developing as well as industrialized countries have pledged their support, reinforcing the United Nations' call for urgent and sustained action for children. They have been joined by non-governmental groups such as the League of Red Cross Societies and authoritative professional bodies... parliamentarians in Asia, Africa, and the Americas, and religious leaders at world level as well as national and community levels."

UNICEF's 1984 State of the World's Children report documents that evidence from around the world - the successes and the failures, and the lessons to be learned from each - and chronicles the commitments which have been made in the past by leaders, organizations and institutions.

These signs are still scattered. Many of the pledges are yet to be turned into action. Many of the actions will be valiant attempts but will fall short. And, of course, more campaigns will need to be launched, and more programmes implemented, before a perceptible impact is made in the daily death toll of 40,000 small children. But what has happened is cause for excitement and hope.

Much of this excitment and hope stems from the growing signs that this opportunity - which has been called a "Child Survival Revolution" - has rapidly grown so much larger than UNICEF. It is becoming an integral part of the priorities of many multilateral and bilateral development assistance agencies...of the programmes of non-governmental private voluntary organizations... of the coverage of information services and communications media...of the ministries of churches and religious organizations...and it is gradually taking its rightful place in the commitments governments make to their people, and in the demands people make of the governments.

The "Child Survival Revolution" is not a "UNICEF" program. UNICEF can articulate its potential to those who will listen, and can help translate ideas into action with the very limited resources which governments and concerned individuals entrust to UNICEF's administration. But in the last analysis, the Children's Fund can only claim to be but one of the many forces which must join together to make this "revolution" real, and give children the chance which they would otherwise not have. Our greatest hope is that these forces will together constitute such a vast multitude that the UNICEF contingent in their midget will be indistinguishable.

That growing multitude now includes many of the obvious participants, like the World Health Organization and the United Nations Development Programme and the World Bank and International Development Association. It includes many bilateral assistance agencies, and it includes a growing number of international non-governmental voluntary organizations, professional associations, and similiar groups like the League of Red Cross Societies, the International Pediatrics Association, the World's Scout Conference, and the Catholic Church.

As examples of the kind of extraordinary collaboration which is evolving to assure the success of these opportunities, I would like to cite three current developments. The first is the growing commitment of the Catholic Church to involve its local parishes in assuring the extension of these child-saving techniques. In Colombia, for example, the Conference of Bishops has published a guide book for local priests, instructing them to ask prospective brides and grooms, when they come for pre-marital counseling, if they will know how to save their children from dehydration, and will the mother give her children the best nutrition available - mother's milk? And when parents bring their child for baptism, the priest is to ask if the child has been immunized, and will they be monitoring his weight with monthly weighings plotted on a growth chart? All of this stems from the Vatican's declaration that:

> "The entire Catholic aid network...will lend its maximum support to these important simple proposals to improve the health of hundreds of millions of children."

My second example is recent news that the seven-year "Nestle Boycott" is being suspended. I do not think it is inaccurate to suggest that the understandings which have been reached between the International Baby Formula Action Coalition and the Nestle corporation are reflective of Nestle's recognition that past practices by much of the infant formula industry have been unduly detrimental to mothers' disposition toward breastfeeding their babies, and that those practices ought to be altered. It is important to note that when the two "sides" in the Boycott dispute decided that it was time to try to resolve their differences, it was Nestle which proposed that UNICEF serve as "honest broker" in helping the two to mediate their disagreements, and UNICEF's Special Coordinator for Child Survival was asked to chair the meetings.

The third example occurred this month, in Bellagio, Italy, as UNICEF Executive Director James Grant, WHO Director-General Halfdan Mahler, and World Bank President A.W. Clausen covened a meeting of thirty of the world's leading authorities on health, development assistance, and social action to consider the initiation of a massive thrust to universalize the protection of the world's children through the application of the effective tools now available, and the new and improved methods being rapidly developed by the biotechnology revolution. This meeting, which included U.S. AID Administrator Peter McPherson as well as the development assistance directors of most other major donor governments, served to mobilize support and financing for projects, programs and research in child health, including scientific and economic review of the activities of the Group. The Group's initial focus would be the extension of universal child immunization. Mr. Chairman, we are now preparing a report on the outcome of the meeting and would like to submit it for the record.

The United States Government is not uncounted in these numbers. The Congress has already played an important role. Your adoption of S.J. Res. 111 - the Joint Resolution affirming support for the child survival and health revolution as United States policy - was the first legislative endorsement of this opportunity by any national parliament, and greatly strengthens UNICEF's position in advocating its pursuit among governments, the media, institutions and individuals. The Congress' commitment to this potential was quite convincingly demonstrated by the increase which you provided in the United States contribution to UNICEF and UNDP for 1984, and in your insistence upon an allocation of $125 million for the AID Health Account, which tremendously boost the resources available to assist countries in pursuing the Child Survival Revolution and a potentially drastic reduction in infant mortality. For this support, I express my deepest appreciation.

The Administration has also responded in both promise and practice. Last April, President Reagan issued a statement terming the daily toll of 40,000 needless young child deaths "a tragedy of global proportions" requiring "a global effort in response". He declared:

"As President of the United States, I am asking the American people to help bring about a health revolution for children during the coming decade by supporting UNICEF's humanitarian program."

The Agency for International Development invited UNICEF and the World Health Organization (WHO) to join in sponsoring an :International Conference on Oral Rehydration Therapy" which was held here in Washington last June, which brought together health leaders from throughout the world in an invaluable gathering to design and promote strategies on the specific task of making more effective use of oral rehydration therapy in saving children's lives. This was surely the most comprehensive effort yet undertaken to universalize understanding, commitment, and strategies to take advantage of this technique for combatting the single greatest killer of children. The benefits from AID's ICORT conference are only beginning to be realized.

What more must be done?

Obviously, in the final analysis, the battle for the lives of children will be fought in the huts and shanties and houses which are the homes of the world's families. The issue is not whether children can be saved, but whether parents will know that their children can be saved. And will know how to do it.

But getting that message to parents, and putting within their reach the very simple and very inexpensive tools which make child-savig possible, requires a coordinated and vigorous effort by a host of organizations and institutions and governments. The techniques may be simple - the 10 cent packet or ORS...the cardboard growth chart...the 50 cent's worth of vaccines...the poster reminding that "Mother milk is Best!" - but mobilizing those resources and projecting them to families in every village and hamlet and urban slum, is a goal which requires the efforts of virtually any - if not every - sector of society.

What do we ask of you?

First, keep up the pressure. I would hope that this Subcommittee's report to the full committee will include language repeating the Congress' expectation of full United States support for the Child Survival Revolution.

Each of the members of this Subcommittee has the opportunity to review both bilateral and multilateral activities world-wide. Ask what the United States representatives in the World Bank, the Inter-American Development Bank, and African Development Bank, and the Asian Development Bank are voting for when they approve loans and programs in their countries. Ask what the child health and child survival component of those programs is. And when proposals come before your subcommittees for multi-billion dollar crusades to "save" regions, ask how much of that money will go toward what the Washington Post called "The Billion Dollar Bargain" of saving children's lives - and saving the most important security resources those countries have to protect and to stabilize their societies. And if not much is being done, legislate that it be done.

Second, keep up the resources. The $52.5 million which the Congress provided for the United States contribution to UNICEF for 1984 is a health step toward our country's "fair share" for UNICEF. But despite the fact that UNICEF is the agency most frequently cited by Ambassador Kirkpatrick, by the Administration, by the Heritage Foundation, and by tens of millions of Americans as 'the United Nations agency most completely consistent with America's ideals and goals' and as perhaps the best-run, most efficient and effective international agency - despite all this, UNICEF and UNDP remain the two major United Nations agencies to which the United States contributes well below its 25 percent "fair share". I hope that the Congress will continue to move toward correcting this deficiency. The U.S. Committee for UNICEF urges that the U.S. contribution to UNICEF, UNDP, and the World Bank's International Development Association be similiarly strengthened to assure their capacities to pursue these opportunities.

We are aware that Mr. Leach and other members of the House, in collaboration with Bread for the World, have proposed an additional special allocation of $50 million for UNICEF and $50 million for the AID Health Account. The U.S. Committee for UNICEF of course would welcome and urge any additional resources that can be made available to help reduce infant and child mortality and morbidity, and we believe that the opportunities which the Child Survival Revolution presents justify significant extra commitments by the United States Government and other governments. We have suggested, however, that the Committee consider whether such allocations might be more effectively put to use quickly if they were provided as, perhaps, a "Child Survival Fund", authorized and appropriated to the President with the expectation that half might be allocated to United State bilateral activities, including private voluntary organizations, and half to multilateral activites, including WHO, UNDP, and UNICEF, as well as activities identified by such collaborative efforts as the Consultative Group for Protection of the World's Children which I mentioned earlier. The key element in this, I wish to underscore, is not "money for UNICEF", but resources for any effective activity which is addressed at significantly accelerating a reduction in the toll in young child lives which are today needlessly wasted due to lack of understanding and access to the very simple techniques which could save those childrens' lives.

Mr. Chairman, despite the terrible economic conditions that continue to afflict many countries and the lives of millions of people, children still have a chance. That chance is not just to survive, but to grow in health as productive, self-reliant human beings.

That chance does not exist solely because of what this Congress has done or can do. But I have little hesitation in saying that without what you have done and will do this year and in the years ahead, that chance would quickly diminish to a tragic waste of human lives and a cruel burden on tomorrow's world.

BIPARTISAN SUPPORT OF UNICEF PROGRAMS

Senator Kasten. Thank you very much for, No. 1, your testimony here today, but equally important for the work that you have done with us during the past year.

We look forward to working with you. As you noted, UNICEF is a popular program. It, I believe, continues to enjoy widespread support in both the Senate and the House, and widespread support among the American people. So we look forward to working with you toward a number of the goals that you have outlined.

Thank you for your testimony here today.

Mr. Sheffield. Thank you again.

Senator Kasten. Mr. Thomas J. McGrew and Mr. James Stepanek of the Committee of Returned Peace Corps Volunteers.

Mr. McGrew.

Committee of Returned Peace Corps Volunteers

STATEMENT OF THOMAS J. McGREW, COMMITTEE OF RETURNED PEACE CORPS VOLUNTEERS

ACCOMPANIED BY JAMES STEPANEK

Mr. McGrew. Mr. Chairman, thank you very much for inviting us to what, I must say, has been the most extraordinarily knowledgeable hearing I have ever attended in either House of the U.S. Congress. I have been very impressed this afternoon.

If I could, I would like to have my statement entered for the record, at this point.

Senator KASTEN. Without objection, your entire statement will appear in the record as if read, and we would like for you and your associate to summarize.

Mr. McGREW. We will do that, and we will do that very briefly, sir.

PEACE CORPS BUDGET

There are before you, and there are before the Congress, two pieces of Peace Corps budget. One is the $155 million no-increase in spending, 203 decrease in volunteers. The other one is the one that proposes to cut out $9 million for Central America, to fund the rest of the Peace Corps at $105.8 million so as to increase the $9 million to $18 million. The net effect is $9 million more and 62 fewer volunteers. We think that both of these are a step in the wrong direction. We think that the right direction is to increase and not decrease the size of the Peace Corps.

The Peace Corps has been decimated for 15 years now, from approximately a level of 16,000 volunteers to approximately 4,800 this year. This year is up slightly from last year. The Senate and the House did that, they turned it around, and I would hate to see it drop back again.

I think the support from the American people is there. I think the need, Lord knows, is there out in the Third World. Other countries have kept a steadier commitment than we have, as a result several of the volunteer organizations, most notably West Germany's which were modeled on the Peace Corps, are now larger, both actually in total numbers and per capita.

I heard the number just recently of 90 cents per capita that we spend on population control, we spend 50 cents per capita on the Peace Corps. More to the point, I think, we spend or send one volunteer per 50,000 Americans, and I don't think that that represents the level of this country's commitment to Third World development. I don't think it represents the full extent of what this country would like to do.

INCREASED VOLUNTEER PEACE CORPS PROGRAM

We would respectfully suggest to this committee, adopt a long-range goal of returning to a 10,000 volunteer Peace Corps, and as a short-range goal, increase the Peace Corps by 10 percent. In dollars that comes to $121 million, exclusive of Central America, to which you add either $9 million more, if you want the status quo there, or $18 million more if you want the Central America recommendation.

That, sir, is what we are asking of you.

Thank you.

Mr. STEPANEK. I have no prepared statement.

[The prepared statement of Mr. McGrew follows:]

PREPARED STATEMENT OF THOMAS J. MCGREW

COMMITTEE OF RETURNED PEACE CORPS VOLUNTEERS

EXECUTIVE SUMMARY

The Peace Corps Budget Committee proposes that the Peace Corps Budget for programs outside Central America should be increased for Fiscal Year 1985 to at least $120.8 million rather than the $105.8 million budget authority requested by the Peace Corps Agency. The Committee strongly opposes the cut of 203 volunteers built into the Peace Corps' budget request and suggests instead, a 10 percent increase in the number of volunteers as a first small step back to a 10,000 volunteer Peace Corps. The Committee supports the Administration's proposal to increase the Peace Corps' activities in Central America by $9 million and 141 new volunteers.

The Peace Corps Budget Committee, an organization of former Peace Corps Volunteers, has looked at the sharp decline over recent years in the Peace Corps budget and number of Volunteers and would like to propose renewed support for the entire Peace Corps Program, as it was in the mid-1960's with almost 16,000 Volunteers and a budget of $149 million. Peace Corps Staff in Washington and in the field are turning down, in some countries, more than half of the requests for Volunteers made by the host countries, because there is no budget to support these requests.

The Peace Corps Budget Committee asserts that the Peace Corps is an extremely successful and worthwhile program both to the Volunteers and to the communities in which the Volunteers serve. Peace Corps is extremely cost-effective and leaves a long-remembered and valuable contribution to the host countries. It is a uniquely American gesture of personal commitment, the effect of which cannot be underestimated. It is also a direct and tangible way of conducting foreign policy at the village or local level.

The Peace Corps Budget Committee proposes that any increase in budget should be used primarily for increasing the number of Volunteers in the field. Beyond this priority, the Peace Corps Budget Committee requests that the Volunteer readjustment allowance be increased to reflect a more realistic cost of living for returning Volunteers.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

We appreciate the opportunity to appear before this Committee to discuss the Peace Corps Budget for

Fiscal Year 1985. Our committee was formed by two organizations of returned Peace Corps Volunteers, the Returned Peace Corps Volunteers of the Washington, D.C. area and the National Council of Returned Volunteers, to express the concern we former Volunteers feel over the continuing decline of the Peace Corps reflected both in the program's inadequate funding and in the declining number of Volunteers who are able to serve in the Peace Corps.

Over the years, we have seen Peace Corps shrink from a peak of 15,556 volunteers in 1966, to less than 4,700 in 1983. We have watched with dismay as year after year the budget ax has fallen heaviest on this Agency. (Table A) Apparently, 1985 is to be no exception. The Administration has proposed two Peace Corps Budgets for FY1985, and both Budgets would cut the number of Volunteers in service. The first budget, submitted by the Peace Corps Director on February 1, 1984 would keep the Peace Corps' appropriation at the FY 1984 level of $115 million. Because of inflation, that Budget would cut the Peace Corps by 203 volunteers. The second Budget divides the Peace Corps into two parts: Central America which is to get $18.2 million and 141 more volunteers, and the rest of the world, which is to get $105.8 million and 203 fewer volunteers. The net effect of that Budget is an increase of $9 million in the Peace Corps' Appropriation and a cut of 62 volunteers in the Peace Corps itself. This statement will focus on the second, more recent, Budget program and more specifically on the non-Central America part of that proposal.

Any loss in the number of volunteers is a step in the wrong direction. We support an expanded Peace Corps presence in Central America and in the rest of the developing world. If tiny Cental America needs at least 2,125 volunteers in the next four years, think how great the need is elsewhere in Africa, Asia, South America and the Caribbean.

This is not the time to cut the number of Peace Corps volunteers. At the very least, Congress should maintain a stable Peace Corps outside Central America by appropriating $109,860,000 for FY1985 to restore the 203 volunteers the Administration proposes to cut. We recommend, however, that Congress go a step further and endorse the goal of 10,000 volunteers by the 1990's. To meet this goal, Congress should begin to increase the number of volunteers by 10% annually. This would require an FY'85 appropriation of $120.8 million. (Table B)

THE THIRD WORLD NEEDS MORE ASSISTANCE

John Kennedy in 1963 said that Peace Corps volunteers "will lay a seed which will bring a rich harvest for all in later days." Given the significant reduction in the size of the Peace Corps, one would think that the job is nearly finished. Reality is otherwise. As Peace Corps funding has been slashed, many countries in the Third World have gone into a downward spiral, a negative developmental spiral, from which they have yet to recover.

If you wonder whether the world needs more Peace Corps volunteers, consider these grim facts of Third World life:

> *Most of the sickness and disease in the Third World is attributed to unsafe water and poor sanitary conditions. Volunteers have helped to dig wells and worked to improve urban and rural sanitary conditions.

*As of 1980, less than 10% of children in the Third World were being immunized against the six major childhood diseases. Five million were killed by these diseases. Medical volunteers have played an important role in several nations' immunization programs.

*Worldwide, 120 million children of school age have no school they can go to. Thousands of education volunteers have taught millions of Third World students over the past two decades.

*In Africa, per capita food production has fallen 20% in the last twenty years. Nations that once fed themselves must now use scarce foreign exchange earnings to import food. Agriculture volunteers have helped thousands of farmers increase their food production.

*Twenty-Four African countries are suffering from a terrible drought which is causing hunger and famine. According to the FAO, in Mali alone, 100,000 children will starve to death this year. PCVs of all backgrounds have played an important role in dozens of disaster-relief efforts.

In every area where help is needed, Volunteers have been able to improve things in their local areas. Unfortunately, the problems have grown while the number of volunteers has shrunk. It is a disgrace that there continue to be more requests for volunteers than there are volunteers to fill them. (Table C) Indeed, more than half the requests for volunteers are never even passed on to the U.S. by the Peace Corps country directors because the directors know there is no budget to support so many requests. With additional funding, these requests could be met, and Peace Corps could also expand into other countries that have expressed an interest in beginning a Peace Corps program.

THE U.S. HAS AN IMPORTANT STAKE IN THIRD WORLD DEVELOPMENT

The economic and political ties that bind us to the Third World were neatly summed up by Secretary Shultz when he told the Southern Center for International Studies that "there will be no enduring economic prosperity for our country without economic growth in the Third World, and there will not be security and peace for our citizens without stability and peace in developing countries."

There are compelling humanitarian reasons for the U.S. to play a much greater role in bringing prosperity to the Third World. There are also some very practical foreign policy considerations.

By the year 2,000, over five billion people will be living in the developing countries. These people need food, housing, clothing, and jobs. If their needs are not met, we will all feel the shock waves of the Third World's economic and political instability.

This instability is a threat to peace and to economic growth in the United States. Keep in mind that one in five American jobs depends in some way on trade, and non-OPEC developing nations account for nearly 40% of the U.S. exports.

Peace Corps service is sometimes diffcult, sometimes exhilarating, and almost always worthwhile. As volunteers, we were privileged to become part of a culture radically different from our own. We came to understand how most of the people on this planet live, and we believe we made a difference in the lives of the people with whom we lived and worked.

We know there are many other Americans out there who also want an opportunity to serve in the Peace Corps. Last year, 16,723 people applied (a remarkable number, in view of the Peace Corps' extremely low visibility), 10,195 were considered, but only 2,977 were actually accepted. (Table D) Although some were not suited for the life of a volunteer, many others had to be turned away for budgetary reasons. With a little more funding, Peace Corps can find a place for these good candidates who may have a real contribution to make to the Third World.

Additional funding will also allow Peace Corps to expand the applicant pool and place the many good candidates. More times than any of us care to count, we have heard friends say "I didn't know Peace Corps still existed." Obviously, Peace Corps isn't getting its message out.

U.S. FOREIGN POLICY BENEFITS FROM PEACE PROGRAMS

In deciding how 1985 foreign aid funds will be allocated, Members of Congress should weigh the unique contribution Peace Corps makes to U.S. foreign policy objectives.

Several government agencies provide humanitarian and technical assistance to the Third World, but only Peace Corps sends its volunteers to live among the people, to work, eat and socialize as they do. Volunteers create a reservoir of good will toward the United States that cannot be duplicated by any other government agency.

Peace Corps also provides this country with a pool of former volunteers knowledgeable about countries which play a major role on the international stage. If the U.S. is to fashion an intelligent and effective foreign policy for Third World countries, we continue to need Americans who understand the cultures and speak the languages.

Finally, several members of your Committee recently sat on the Commission on Security and Economic Assistance, headed by Frank Carlucci. In its final report, the Commission expressed serious concern about the declining public support for foreign aid.

While many Americans are suspicious of, or outright opposed to certain foreign aid programs, we do not think this negative attitude extends to the Peace Corps. On the contrary, we have found that Americans admire Peace Corps volunteers, and are proud of the humanitarian work Peace Corps does in the name of the United States. A 1973 study of American attitudes toward global poverty and development revealed that 88% of those surveyed saw the Peace Corps as the single most effective effective organization helping Third World people (Paul A. Laudicinia, World Poverty and Development: A Survey of American Opinion, Washington, D.C.: Overseas Development Council, October 1973). President Reagan expressed this same attitude when he stated, in March of 1981, "Volunteers have fought, and often conquered, illiteracy, hunger, poverty and illness in nearly ninety countries. Their efforts, dedicated to world peace through international good will, have done much to replace fear and mistrust with mutual understanding. If Congress increases Peace Corps' funding and visibility, Americans may become more aware of the needs of the Third world, and feel better about foreign aid in general.

PEACE CORPS FUNDING IN PERSPECTIVE

Congress should appropriate $120.8 million for the Peace Corps in FY85 exclusive of any commitments in Central America. This would be the first small step back to a 10,000 volunteer Peace Corps.

One Hundred and Twenty million dollars is a small sum in a foreign aid budget that totals $15 billion. It is a modest amount when compared to the $7 billion requested for security assistance programs, and the $313 billion for defense programs. It is a drop in the bucket in a world that spends $660 billion a year on arms.

If the burden of poverty is not eased in the developing countries, the world is likely to pay a heavy price in lives and resources down the road. We can watch conditions deteriorate, or, through a revitalized Peace Corps, we can redouble our efforts to help Third World nations find solutions to the problems they face.

An expanded Peace Corps is an investment in stability and international good will, and it speaks to the very best in the American people.

Thank you.

TABLE A

PEACE CORPS BUDGET SINCE 1962

Adjusted by CIP-U 1967+100

FISCAL YEAR	CURRENT DOLLARS(000)	CONSTANT DOLLARS(000)
1962	30,000	33,482
1963	59,000	65,121
1964	95,964	104,650
1965	104,100	112,056
1966	114,000	120,635
1967	110,000	113,169
1968	107,500	107,500
1969	102,000	97,889
1970	98,450	89,889
1971	90,000	77,386
1972	72,500	59,769
1973	81,000	64,645
1974	77,000	57,851
1975	77,687	52,598
1976	81,266	50,413
1977	80,000	46,893
1978	86,243	47,512
1979	99,179	50,575
1980	99,924	45,963
1881	105,531	42,760
1982	105,000	38,546
1983	109,000	37,703
1984	115,000	38,539

TABLE B

RECOMMENDED BUDGET AND VOLUNTEER FORCE THROUGH 1991
(Excluding Central America)

FISCAL YEAR	STABLE FORCE (000) 2/	10% INCREASE (000) 2/	NUMBER OF VOLUNTEERS 1/
1985	109,860	120,846	4,233
1986	126,284	138,912	4,656
1987	145,580	160,138	5,121
1988	167,345	184,079	5,633
1989	191,810	210,991	6,196
1990	219,220	241,142	6,816
1991	249,823	274,805	7,498

1/ Dollar figures for a stable force for 1985 are based upon a restoration of the 203 volunteers scheduled to be dropped at an average cost of $20,000 per volunteer

2/ The annual 10% increase in the budget is a proxy for a 10% increase in the number of volunteers.

The dollar figures for 1986-1991 assume that the previous year's number of volunteers will be maintained. The increased costs reflect OMS's estimates for inflation for each of those years, using the GNP deflator for the previous calendar year. Those inflation estimates are as follows:

1984	4.5%	for FY1986 budget
1985	4.8%	
1986	4.5%	
1987	4.2%	
1988	3.9%	
1989	3.6%	

Table C

REQUESTS/INPUT

	Requests for Volunteers */	Input of Volunteers	% of Requests Filled
1972	4,786	3,608	75
1973	6,185	4,112	38
1974	6,320	4,320	68
1975	4,311	2,942	68
1976	4,347	2,948	74
1977	5,652	3,751	66
1978	4,793	3,717	78
1979	4,259	3,331	78
1980	4,354	3,118	72
1981	4,259	2,659	63
1982	3,794	2,863	75
1983	3,685	2,977	81

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*/ Does not include requests -- estimated at over 3,500 in FY83 -- that were withdrawn or not transmitted to Peace Corps Washington because they could not be filled within the Peace Corps' known budget constraints.

Table D

APPLICANTS/TRAINEES

	Total Applicants	Applicants Considered	Trainees/New Volunteers
1977	13,908	8,306	5,752
1978	13,661	7,987	7,072
1979	17,771	8,564	6,328
1980	16,495	8,445	5,994
1981	15,627	8,334	4,863
1982	14,577	9,866	4,542
1983	16,723	10,195	2,977

THE COMMITTEE

The Committee of Returned Peace Corps Volunteers on the Peace Corps Budget was formed by the National Council of Returned Volunteers and the Washington, D.C. area Returned Volunteers organization in an attempt to reverse the steady decline in the size and activities of the U.S. Peace Corps. The Budget Committee includes members of both political parties and represents a wide variety of Volunteer experiences. The members are: Thomas J. McGrew, Nigeria 64-67, a partner at Arnold & Porter, Washington, D.C. (Chair); Donald T. Bliss, Micronesia 66-68, a partner of the Washington, D.C. office of O'Melveny & Myers; Susan I. Greeley, Ghana 75-77, Computer Systems Analyst at the Veterans Administration; Neil G. Kotler, Ethiopia 64-66, Legislative Aide to Rep. John Conyers, Jr.,; Holland G. McKenna, Upper Volta 71-73, Economic Analyst at the Airline Pilots Association; Charles D. Smith, Ethiopia 64-66, associate editor, interpretive releases, American Council for Nationalities Service and senior associate, Conflict Analysis Center; James Stepanek, Colombia 67-69, Editor, _The China Business Review_, at the National Council for U.S.-China Trade; Joan Timoney, Senegal 78-80, Legislative Assistant to Sen. Quentin N. Burdick.

The Budget Committee's sponsoring organizations are:

The National Council of Returned Peace Corps Vonunteers is the only existing "alumni" organization at the national level for returned Peace Corps Volunteers. It publishes a newsletter, undertakes special projects such as the 20th Anniversary Conference of the Peace Corps held in Washington in 1981, and coordinates and supports local returned Volunteer groups throughout the country.

Returned Peace Corps Volunteers of Washington, D.C. is the Washington-area Peace Corps alumni organization. It is affiliated with the National Council of Returned Peace Corps Volunteers. This local group, with nearly 300 dues-paying members, sponsors a variety of activities for area returned Volunteers and publishes its own newsletter. Among the group's activities are foreign policy issues forums on topics relating to Third World countries where Volunteers have served.

Senator KASTEN. First of all, where did you serve, what part of the world?

Mr. MCGREW. I was in Nigeria, and Jim was in Colombia.

Senator KASTEN. It might be hard for you to respond, but you might be able to because Colombia is an area where there have been questions about the ability of U.S. citizens to travel freely in the country.

But do we have the ability to protect our volunteers in these areas of the world?

Mr. STEPANEK. Mr. Chairman, I personally feel that it would be very difficult. It would require careful site selection so that this problem was taken into account.

Mr. MCGREW. Senator, I was struck earlier by the testimony of the lady from the United Church of Christ to the effect that there is a concern on the part of the death squad types in El Salvador, to the extent that they have been active at all recently, that they not harm American nationals because they know what the consequences of that would be.

I think the truth is that there are many countries in the world, certainly in Africa, where during my time in Nigeria, we went through two coups, and got into 2 or 3 months of the civil war before the Peace Corps was out of that country. Peace Corps volunteers are considered on the ground a different kind of American national.

American nationals have a certain amount of protection because people do not want to kill American nationals because it tends to be very dangerous for them. They even less like to harm Peace Corps volunteers because, generally, we are fairly popular folks over there, rather more than most other Americans.

Senator KASTEN. I, first of all, don't disagree with what you say, but when we see in the last couple of years in Central America, labor leaders, nuns, and a national press photographer, in different ways all representative of very, very high visibility positions, I am concerned that in the process of increasing our participation in activities such as the Peace Corps that we might also provide more targets.

Who knows who these people are? Frankly, nobody knows. We are seeing an escalation of terrorism and violence from Rome to Paris to the Middle East to the U.S. Capitol. It is a concern that we have to be aware of and concerned about.

Mr. MCGREW. I agree with you. On the other hand, being a volunteer has never been an entirely safe matter. The violence in El Salvador has not stopped the labor leaders. I know that it has not stopped the nuns, and I will bet that it has not stopped the photographers. I don't think that it should stop the volunteers, if they want to go.

Senator KASTEN. Are you an officer of a group of former Peace Corps volunteers?

What I am wondering, are you speaking as two individuals, or are you speaking on behalf of the committee?

Mr. MCGREW. Our committee was formed by two groups, the National Council of Returned Volunteers, and the Washington Area

Returned Volunteers, the National Council being an umbrella organization for a fairly large number of returned Peace Corps volunteer groups across the country. We were created, essentially, to be a focus of the concerns generally felt among the returned volunteers about the continued drop in size of the Peace Corps.

RECRUITMENT OF VOLUNTEERS

Senator KASTEN. What, if anything, are you doing to assist in the recruitment of Peace Corps volunteers, you as an organization?

Mr. MCGREW. The organizations that created our committee are cooperating fairly actively with the Peace Corps itself, to do what they can.

Senator KASTEN. One of the things that we were interested in was to try to expand the geographic area in the United States from which the Peace Corps volunteers come. Although it is nice to say that Wisconsin is a pretty State, and we have had a number of Peace Corps volunteers from my State, there was a concern expressed about, No. 1, that Peace Corps participation from the South and the Sunbelt States and, No. 2, that the number of Peace Corps volunteers of Hispanic descent. Do you have any comments that you would make in regard to either of those questions?

Mr. MCGREW. I think that both of us feel very strongly that the Peace Corps is doing the right thing in targeting the Hispanic groups in the Sunbelt. The Peace Corps, as you know, has asked for an extra $2 million, essentially for market research, to find out how many more Hispanic volunteers they can get, and how they can best target those volunteers.

We wish them terribly well. We think that this is exactly the right thing to do and the right place to aim, particularly for volunteers who are going to be doing literacy work in Central America, they would be far preferable to people who learned their Spanish in college.

Mr. STEPANEK. I would agree completely with that. My friends are surprised that the Peace Corps still exists.

Senator KASTEN. Who are your friends?

Mr. STEPANEK. Those who are unfamiliar with it. When I was in the Peace Corps is now 15 years ago, and I think the Peace Corps could not only target certain areas, but also raise its general level of publicity.

Senator KASTEN. I think that this is one of the things that Loret Ruppe is trying to do. She is trying to work with getting more publicity, and I think that overall she is succeeding in that direction.

I thank you for being with us today, and for sitting through what had to be a long and difficult afternoon. We look forward to working with you. We thank you for your interest in the Peace Corps and also for your participation in this subcommittee's deliberations.

Mr. MCGREW. Thank you.

Mr. STEPANEK. Thank you.

BREAD FOR THE WORLD

STATEMENT OF ARTHUR SIMON, BREAD FOR THE WORLD

FOOD AND DEVELOPMENT ASSISTANCE

Senator KASTEN. Next is Mr. Arthur Simon representing Bread for the World.

I don't know if you are prepared to give us exit poll results from the Illinois primary today or not.

Mr. SIMON. I wish I knew something. If you know something, I would be interested in hearing.

Senator KASTEN. Welcome to the subcommittee, we look forward to your testimony.

Mr. SIMON. Thank you very much, Mr. Chairman.

With me is Mary Ruth Herber who is an issue analyst with Bread for the World. I will summarize the longer testimony, and read a few excerpts.

Basically, the context for my comments is a concern that we have that over the past 3 years our security assistance has increased by 73 percent, while at the same time our food and development assistance, while it has increased very modestly, in real dollars, when discounted for inflation, there has been an actual decline, a slight decline.

We think that this represents a real imbalance, which does not, ironically even, give us the increased security that we seek, a better way of dealing with global insecurity lies in focusing more on development needs in the poorer countries.

SECURITY ASSISTANCE

Let me comment first on the security assistance side of things, where it seems to us at least that we tend to respond to social and economic problems with military solutions. Let me do so by giving an example, the example of Pakistan.

In 1979, the Soviet invasion of Afghanistan caused a sharp acceleration of transfer of arms to Pakistan. Pakistan is paying very dearly in resources diverted from its own economic development as a result. For example, Pakistan spends 4 percent of its national budget on education, one-sixth of the average for the world's low-income countries.

SITUATION IN PAKISTAN

Twenty-four percent of Pakistani adults are literate, which means that 76 percent are illiterate, less than half of the average in low-income developing countries. Fifty-seven percent of primary school age children and 15 percent of primary school age children are enrolled.

Two-thirds of Pakistan's 85 million people are malnourished, and figures for infant mortality, adult literacy, and access to potable water lag far behind most developing countries.

But the greatest cost may be the regional instability created by the infusion of arms. U.S. strategists hope that the development of Pakistan's air defense system will deter Soviet adventurism, but Pakistan has located 80 percent of its armed forces not on its northern border with Afghanistan, but along the southern border with India.

When the U.S. completed the $1 billion sale of 40 sophisticated F-16 fighters, India immediately approached France and the Soviet Union to purchase advanced Mirage-2000 and Soviet MIG fighters. By stimulating the military buildup of Pakistan and India, military assistance drains the resources available for economic development in both countries, and make neither more secure.

The U.N. study of disarmament and development suggests that for every dollar spent on the military by a developing country, domestic investment in such fields as health and education is reduced by 25 cents, and the agricultural production declines by about 20 cents.

Bread for the World believes that a cap on military and security aid expenditures at fiscal year 1984 levels would at least begin to address the problems of runaway security related expenditures in foreign assistance programs, as well as halting the alarming trend toward increased militarization of developing countries.

I might just throw in there, although I don't have it in my written testimony, that in Africa, where we see this terrible tragedy unfolding, with 24 countries facing famine, Africa during the 1970's increased its military spending nine-fold. So we see the awful tradeoff that tends to develop there.

DEVELOPMENT ASSISTANCE

Now may I turn to development assistance in distinction to the security assistance, where we feel the Congress has an opportunity to help restore the balance in the other direction.

One way of doing that, with several specifics, is action that has already been taken by the subcommittee and its full committee, for which we are very grateful, and that is steps to address the need for emergency assistance in 24 countries of Africa.

We hope that that will continue to go forward, and not be delayed by the debate over the Central America policy matter. Also that Congress will find ways of providing not only food aid, but transportation resources that can help get that food where it is needed.

AREAS FOR INCREASES

We recommend also increases in the following areas:

First, in AID's health programs, which is arguably AID's most effective account. That account shrank since 1980 from $142 million to $125 million. This year the administration is proposing a substantial increase, but unfortunately most of that increase is pegged for Latin America and the Caribbean, leaving very little additional for programs in other parts of the world where it is desperately needed, particularly in Africa and South Asia. We are suggesting that that amount be lifted to $175 million, which would provide at least some additional funds for other parts of the world.

The second area where we feel that some additional moneys are eminently recommended is the Child Survival Fund that has been recommended by the House Foreign Affairs Committee. You have just heard testimony from UNICEF regarding the efforts toward the Children's Health Revolution, which we feel is really one of the most exciting opportunities that the Nation and the Congress have had for many years to do something on a relatively small scale that nevertheless could make a very significant difference in the lives of many, many children worldwide. Bread for the World recommends in this connection the establishment of a Child Survival Fund for $50 million in fiscal year 1985.

The third area where we feel additional funding is urgently needed is for the International Fund for Agricultural Development, or IFAD. IFAD is the only international organization that focuses solely on increasing food production in the poorest food deficit countries, and on small farmers and landless farm workers within those countries.

My personal opinion is that IFAD is one of the vastly underrated, maybe the most underrated, effective development agency worldwide. We have contributed so far only $90 of the $180 million that had been committed to IFAD.

We are suggesting that by adding on to the projected $50 million for contribution toward IFAD, for another $40 million, we could at least complete our commitment. Even if that would leave us 2 years behind, we would at least be doing that. Because of the matching funds involved, that would have a multiplier effect.

Finally, we are suggesting that an additional sum of $10 million be contributed to the Inter-American Development Bank, which specializes in small projects targeted for groups of people who have little or no access to credit and are usually in the lower half of the population economically. It has been on a trial program for the last 5 years. It has a good track record, and additional funds would move this project out of the experimental stage.

So these modest increases in development assistance, combined with a cap on security assistance would, we feel, begin to restore some balance, provide more security than we are getting now, save many lives, and not incidentally save a lot of money, too.

Thank you very much.

[The prepared statement of Mr. Simon follows:]

bread for the world

PREPARED STATEMENT OF ARTHUR SIMON

EXECUTIVE DIRECTOR

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to meet with you today and discuss matters of grave concern to the United States and to the people of the countries affected by our foreign assistance programs. My name is Arthur Simon, and I am the executive director of Bread for the World, a Christian citizen's movement that supports government policies and programs which help hungry people. Our 45,000 members work to address the problem of hunger by encouraging public policies that alleviate hunger and assist people to promote their own welfare.

Bread for the World has been concerned about the increasing emphasis in our foreign aid programs on military means for addressing concerns in developing countries. During the past three years, funding for military and security aid programs has increased from $5.5 to nearly $10 billion. The Administration request for FY 1985 and including the FY 1984 supplemental would increase funding for military and security aid programs by $1.175 billion more. Bread for the World believes that a more appropriate response to dealing with global insecurity lies in focusing on development.

Progress in enabling a country's poor people overcome poverty is an essential part of that country's security. An overarmed country is not truly secure if its people are poor and malnourished. Helping poor people obtain basic needs contributes to the real security of a nation. The United States will strengthen its own security by contributing to development assistance since hunger and poverty are major sources of social unrest in the world today.

An opportunity to make a commitment to child health programs worldwide has been opened by the recommendations of the Foreign Affairs Committee in the House to create a Child Survival Fund. Other opportunities to expand

and improve programs in health, education, agriculture and other basic services could make major contributions to ensuring stability and security.

However, funding for development assistance programs has increased only ten percent in the last three years, less than the rate of inflation. The Administration request for 1985 would increase development assistance by less than ten percent, with the largest part of the increase going to Central America. It is clear that the Administration continues to favor security-related foreign aid.

Security Assistance

The security aid portion of the U.S. foreign aid budget is an extension of the U.S. government's security concerns, principally opposition to the Soviet Union and other countries perceived as being influenced by it. Bread for the World believes this incorrectly identifies the major problem in the Third World, which is hunger and poverty, not ideology, and provides an inappropriate response of military rather than humanitarian aid.

The costs of militarization in developing countries are seldom adequately weighed. The results are highly visible in El Salvador and Honduras, where warfare and violence claim thousands of military and civilian casualties each year. Elsewhere, militarization claims its casualties less spectacularly. In South Asia and East Africa accelerated military spending and the military aid which helps to make it possible can indirectly take the lives of thousands, without the firing of a single shot.

A clear example is Pakistan. Pakistan has been the major U.S. arms client in South Asia since its independence in 1947. In 1979 the Soviet invasion of neighboring Afghanistan caused a sharp acceleration of the transfer of arms. Though the sale is being financed on concessional terms, Pakistan is paying dearly in resources diverted from its own economic development. The government's budget for educational needs as a whole contrasts sharply with its commitment to military and technical training. Pakistan spends four percent of its national budget on education, one-sixth of the average for the world's low-income countries. Twenty-four percent of Pakistani adults are literate, less than half the average in low-income developing countries. Fifty seven percent of primary school-age children and fiften percent of secondary school-age children are enrolled. The World Health Organization estimates that two-thirds of the 85 million people are malnourished, and figures for infant mortality, adult literacy, and access to potable water lag far behind most developing countries.

But the greatest cost may be the regional instability created by the infusion of arms. U.S. strategists hope that development of Pakistan's air defense system will deter Soviet adventurism. But Pakistan has located 80 percent of its armed forces not on its northern border with Afghanistan, but along the southern border with India. When the U.S. completed a billion-dollar sale of 40 sophisticated F-16 fighters, India immediately approached France and the Soviet Union to purchase advanced Mirage-2000 and Soviet MIG fighters. By stimulating the military buildup in both Pakistan and India, military assistance drains the resources available for economic development.

Military spending requires a country to restrict spending elsewhere. Research completed by Professor Lance Taylor of the Massachusetts Institute of Technology for a United Nations study of disarmament and development suggests that for every additional dollar spent on the military by a developing country, domestic invest in such fields as health and education is reduced by 25 cents, and agricultural production declines by 20 cents. In 1980, 30 developing countries spent more on their military budgets than on health and education combined.

One step toward an honest accounting of U.S. aid is the Administration proposal to put all Foreign Military Sales on budget. This will assist Congress in better determining priorities among competing security aid programs. The true cost of the FMS program will be evident, and uncontrolled growth less likely.

Another factor to consider in determining security assistance levels is how the recipient governments may use the military forces against their own citizens. Of the 41 military governments identified by the Center on Defense Information as having records of violating their citizens' rights, the U.S. is a major arms supplier to 28.

Harry Shaw, who was Chief of the International Security Affairs of OMB for thirteen years, has stated in testimony earlier this year that Congress could reduce the administration's proposed $10 billion security assistance program by as much as $1 billion without harm to the security of the United States or to its foreign relations. Given the rapid growth of this program, Congress can best take control by limiting further rapid increases. Bread for the World believes that a cap on military and security aid expenditures at FY 84 levels would begin to address the problems of runaway security-related expenditures in the foreign assistance programs, as well as halting the alarming trend toward increased militarization of developing countries.

This proposed cap includes the Economic Support Fund. We believe that if there are to be increases in economic aid this year, they should come in development programs with good records of reaching poor people. The Economic Support Fund does not meet this requirement. We recognize a place for some aid that provides budget support. However, ESF programs are largely transfers of cash and commodities through channels that, in most recipient countries, have not traditionally benefitted poor people. Furthermore, growth of ESF funds has been much greater than for development assistance, and it is questionable whether recipient countries can effectively use the funds. A recent General Accounting Office report found that in 9 countries, "the issue of potential adverse effects of the aid (such as delaying economic policy adjustments) was cited as an issue." Bread for the World would direct any increases in aid to programs of greatest potential benefit to poor people. ESF does not operate under controls in this regard.

Development Assistance

Because of the growing emphasis on security-related aid in foreign assistance, programs designed to meet basic needs in developing countries have not expanded significantly. Drought, increasing landlessness, a scarcity of jobs brought about in part by worldwide recession and the Third World's mounting debts to developed nations have meant a worsening of poor peoples' plight in recent years. Famine in 24 African nations could lead to starvation for three to four million people, according to the Agency for International Development. We appreciate the Committee's rapid action on an emergency supplemental appropriation for famine relief. This is not a controversial issue, and we hope that action will not be delayed by debate over Central America policy. Furthermore, we hope that more funds will be rapidly forthcoming to meet not only the pressing food needs, but also to provide transportation resources of gasoline, trucks, trailers, spare parts, aircraft, and personnel which are absolutely necessary to averting starvation on a massive scale.

In addition to emergency relief assistance, support for development efforts are necessary to meet long-term food needs.

Bread for the World supports increases to development assistance programs with good records of meeting basic needs of the poor majority in developing countries. For that reason we recommend the following increases in funding:

1) Agency for International Development Health Programs - Health spending is perhaps AID's most effective account. Public health measures can prevent many unnecessary deaths, reduce suffering due to disease, and increase productivity, at a modest cost. Yet funding for the AID Health Account has shrunk since 1980, from $142 million to $125 million. This committee has demonstrated its support of AID health programs in its recommendation for $133 million in the 1984 appropriation bill. The increase proposed by the Administration for FY 1985 is laudable, But $20 million of the increase is devoted to Latin America and the Caribbean, leaving little additional for health programs worldwide, particularly in Africa. Bread for the World recommends that the Administration's request of $158 million be increased by $20 million in order to expand health assistance to areas other than Central America and the Caribbean.

   In Africa, 80 percent still lack access to primary health care. The average life expectancy is 47 years, compared to 73 in the United States, principally due to very high rates of infant and child deaths. In spite of this, the AID health program in Africa is small, about $27 million in the FY 1985 budget for a population of 188 million in the countries where AID has a program. This represents a decline from $42 million in FY 1982. Bread for the World proposes that an additional $15 million be employed for health programs in Sub-Saharan Africa.

   In Bangladesh, one of seven infants dies before the age of one. Life expectancy at birth is 47 years. Yet there is no AID health program in Bangladesh. At least $5 million could be productively used to initiate AID health projects in Bangladesh.

2) Child Survival Fund - The House Foreign Affairs Committee has recommended the establishment of a Child Survival Fund. Bread for the World strongly supports the establishment of this fund. Funds would be administered by the President, and would enable organizations and agencies such as the World Health Organization, UNICEF, and AID, as well as private agencies,

to carry out measures designed to reduce unnecessary childhood death. James Grant, Executive Director of UNICEF, estimates that half of the 40,000 daily child deaths could be averted by the expansion of four simple, inexpensive health care techniques. This so-called child health revolution includes oral rehydration therapy (a solution of sugar and salt for a child suffering from diarrhea), vaccinations, encouragement of breastfeeding, and use of growth charts to spot subtle malnutrition. In Narangwal, India, community health workers using oral rehydration therapy and penicillin have reduced the death rate among young children by half. In Brazil, a nationwide polio vaccination campaign reduced the number of cases of polio by 99 percent.

These techniques are inexpensive. Oral rehydration packets can be made for as little as five cents each. Vaccination, the most expensive element, is estimated to cost $8 per child. And according to UNICEF, the provision of these services worldwide could save 7 million children's lives annually. Furthermore, the establishment of a Child Survival Fund would be an incentive to organizations and agencies to undertake child health activities on a broader scale. It could also be an incentive to both recipient and donor countries to emphasize the development of health care systems.

Bread for the World recommends that this committee establish a Child Survival Fund for $50 million in FY 1985.

3) International Fund for Agricultural Development (IFAD) - IFAD is the only international organization that focuses solely on increasing food production in the poorest food deficit countries, and on small farmers and landless farm workers within those countries. IFAD not only funds projects, but promotes innovations which help governments attack the contrainst that have impeded progress by the poor. In Sudan, Mauritania, India and Egypt, for example, IFAD's efforts have led to newly irrigated lands for small and landless farmers.

IFAD is funded primarily by the OECD countries and the OPEC nations. For every dollar the U.S. contributes, other donors provide $4.45. However, after three years, the U.S. has provided only $90 million of a $180 million commitment. This has affected other donors' contributions as well.

In addition to the $50 million scheduled for FY 1985, Bread for the World urges that IFAD receive a full $90 million needed to complete its $180 million commitment. The additional $40 million would go to fund projects for which plans are already developed.

4) Inter-American Development Bank - Small Projects - The IDB's program for the financing of small projects is targeted for groups of people that have little or no access to credit and who are usually in the lower 50 percent of the population. It has been a trial program for the last five years in the IDB. Grants are made almost exclusively to increase the output, and incomes, of poor people that participate. Loans have been made in 21 countries in Latin America and the Caribbean, with 75 percent of the loans going to the poorest countries. Bread for the World requests that funds be appropriated to move this project out of the experimental stage.

The amount requested for FY 1985 is $10 million. This would be in addition to $10 million currently financed out of income of the IDB. The expansion permitted by this increase is administratively feasible, and represents only the smallest fraction of the actual need. Although the United States currently makes no direct appropriation for this program, it is possible to do so.

These modest increases in development assistance programs would be a positive response to the tension and insecurity of today's international environment. Continuing the escalation of military spending in poor countries is not. For these reasons, Bread for the World opposes any increases in military or security aid beyond FY 1984 levels. Security and stability will be best promoted not by heavily-armed governments but by societies where people are prospering and secure. We ask that you restore this objective as the top priority for United States foreign aid.

CHILD SURVIVAL FUND

Senator KASTEN. Thank you for your testimony.

You talked about the Child Survival Fund. You said that you strongly support the establishment of this fund at $50 million.

Mr. SIMON. That is right.

Senator KASTEN. Why is this fund necessary? Why don't we take the same number of dollars to UNICEF, and we could go up to 25 percent, assuming that our goal is the same.

I want to ask you also if you support the Economic Policy Initiative that some at AID are talking about. We have four or five programs in place, and then somebody dreams up, because it looks good in a press release, yet another program. So the first thing you do is hire somebody for $40,000 or $50,000 to run it, and they hire half a dozen or 10 people to work for them. Then they put out a couple more reports, and other kinds of things. Now for the $50 million that maybe could be going to needy people, we have $25 million left.

Why do you support the establishment of yet another fund which has, frankly, purposes, from what I could tell, very similar to what UNICEF is doing.

Mr. SIMON. I think it is an excellent question, and I am not sure if I have a very complete answer for that. I think part of the answer is simply that the House has taken that action, and so it would be a relatively simple thing for the Senate similar action and move that thing along.

My guess is, and my colleague may know better than I do on this one, one of the reasons that it was done that way—initially our proposal was to channel an extra $50 million through UNICEF, but because it is not only UNICEF that engages in the efforts for that Children Health Revolution, it is also the World Health Organization and other development agencies, including AID.

Senator KASTEN. You are making the point that I am trying to make. You already have a number of people in the business.

Mr. SIMON. But our main concern here is not the establishment of a new fund. Our main concern is the additional $50 million for fiscal year 1985 for the purpose of helping the Child Health Revolution.

Senator KASTEN. We have the same kind of problem with IFAD. The Congress hasn't been real crazy about IFAD because of two reasons. The No. 1 reason was that when it was put together—I don't know if you followed it, but I wasn't here then—people said, "This fund duplicates UNDP, it duplicates what other people who are already in the development business are doing. Why do we need a new fund?"

They said, "We need a new fund because this way, we are going to let the OPEC countries get out front and this way, it is going to be funded by the OPEC countries. That is why we need another fund." They also said, "We will not get into the development business. We won't have a big staff." This was only going to be a way of funneling money.

Were you part of the debate when this got started? Were you aware of the record here?

Mr. SIMON. We were aware of it.

Senator KASTEN. Now you have watched it. No. 1, the OPEC countries were going to contribute 50 percent, but they only contributed 43 percent. But the other thing is that they have—I am told, I have never been there—one of the most extraordinary offices, bureaucracies, salaries, et cetera, of anyone in the development business.

I see you are smiling, have you been there?

The only way I can judge, I can judge their degree of efficiency, and the only way that I can do that is by looking at their annual report. For the last couple of years, their annual report has been a multicolor, big, fancy kind of a document that has to cost an awful lot of money.

Mr. SIMON. Yes.

Senator KASTEN. You support IFAD. You are telling me that you would like *x* number of dollars to go into development and agricultural assistance kinds of programs, but not necessarily through IFAD, or are you saying to me that you think that there is something great and unique about IFAD, and we support it because of that?

Mr. SIMON. The latter is the case here. I think, for instance, IFAD itself, institutionally, is doing things and doing them in a way that other development agencies and institutions are not. IFAD's track record has been really excellent.

I have some uneasy feelings, too. I have not been to their office, so I don't know what it looks like. When I see slick reports, it is not only IFAD, but a lot of the agencies, reports that probably cost a little more than I would like. I think the bottom line on that is just a hardnosed assessment of the kind of work that is being done. Are you getting good management, and are the programs tailored so that they really deliver and benefit people who need them. Overwhelmingly, the assessments of IFAD have been positive. They really do reach the poorest of the poor, and do that quite effectively.

INFORMATION TO FIELD OFFICES

Senator KASTEN. I just want to make one other comment. I have never had the opportunity of discussing this with you. One of the problems that a number of us have had, and I hope that they could be ended with your organization, is that sometimes the word out in the field is not consistent with what is going on in Washington, D.C. We might have an opportunity to discuss this in more detail.

Last year, your people put out some kind of a statement saying that I, personally, as chairman of the subcommittee, was supporting low funding for UNICEF, or fighting for low funding for UNICEF, when precisely the opposite was happening here. Senator Inouye and I, on this subcommittee, were increasing funding for UNICEF, and we were extremely supportive.

Then we got that whole fire put down, and I think we brought in some people from UNICEF to explain this to us, and they said that they must have made a mistake. Of course, out there, there is no one saying that they have made a mistake, they just start the church fires by saying, "Bob Kasten is trying to take money away from children that are sick."

This year, you came back and said that we were blocking humanitarian assistance to Mozambique, almost on the same day that I had given Peter McPherson permission to go ahead with disaster assistance for Mozambique. We have been through this a couple of different times, and during the week that you were attacking me out there, we had okayed part of a $30 million package. So that wasn't the case.

I just want to say that I am not the only one who is concerned about this issue. In your zeal to somehow energize people out there in order to get contributions, or maybe get more people in your grassroots organizations, or to develop your direct mailing lists—I don't know what you are doing out there—you are not making a lot of friends with people whose positions you are inaccurately reporting on.

I worked with Senator Hatfield and Senator Danforth in trying to work through the funding for Africa, and also the Danforth compromise in which we put half of that emergency money on the other bill so that, as you pointed out in your testimony, the debate on Central America would not hold up emergency food aid.

I just want to tell you that a number of us are concerned, and I am concerned that if we are going to work together, we might not agree or disagree on all of the issues, but I think you have a responsibility and your organization has a responsibility to accurately reflect my position on issues, and that has not been the case.

I would hope that somehow or other, you could, No. 1, explain to me why you are doing what you are doing and, No. 2, try to be a little bit more honest and up front in the future.

Mr. SIMON. I appreciate very much your comments, and I want to offer you my apology for anything that went out from either Bread for the World staff or, as apparently was the case, from some of our members in Wisconsin that was not accurate. You certainly deserve an apology for that and you have it.

It is not typical. I must say, I learned of this, both instances that you mentioned, only this past week as I was preparing testimony. Staff told me that this could be a matter of concern to you and rightly so. It is not typical of the way we operate. I think we are usually quite careful. In both cases, I think it was inadvertent that people jumped too quickly on something, and we will see that it doesn't happen again in the future.

We really do want to work with you, and we will see that the word gets out to the people in Wisconsin, and on the action that you have taken on the African situation, too.

Senator KASTEN. Thank you.

Mr. SIMON. Thank you.

MARCH 30, 1984.

ADDITIONAL COMMENTS FOR INSERTION INTO THE RECORD OF MY TESTIMONY ON MARCH 20 BEFORE THE SENATE FOREIGN OPERATIONS SUBCOMMITTEE IN CONNECTION WITH THE CHAIRMAN'S FINAL QUESTION TO ME AND MY RESPONSE:

Having made a full review of all communications sent out by our staff in connection with the UNICEF funding and seeds for Mozambique, I would like to note the following:

Regarding UNICEF funding, as soon as the mistake was called to our staff's attention we did issue an apology and sent a special communication to all our members in Wisconsin setting the record straight. The communication said that we were in error in identifying Senator Kasten's position with that of the administration, which sought a 37-percent cut in UNICEF funding, while Senator Kasten proposed only an 8-percent cut. Bread for the World had proposed a modest increase.

The Mozambique seeds matter is a bit more complex but by defining the seed request as development assistance rather than emergency assistance, Senator Kasten's position in effect put a hold on that request despite support for favorable action on the request from both AID and the National Security Council.

We regret any failure on our part to fully represent the chairman's position, for which I apologize.

ARTHUR SIMON,
Executive Director,
Bread for the World.

INTERNATIONAL DEVELOPMENT INSTITUTE

STATEMENT OF DR. PETER NELSON, INTERNATIONAL DEVELOPMENT INSTITUTE

Senator KASTEN. The next witness is Dr. Peter Nelson representing International Development Institute.

Dr. NELSON. Mr. Chairman, thank you very much for the opportunity to be here.

I am Chairman of the International Development Institute and also the United States International Trade Center. It is a new effort to help U.S. exports and to help overseas development in the private sector.

If my statement could be entered for the record, I will summarize very briefly.

Senator KASTEN. Your entire statement will be made a part of the record, and we would ask that you summarize and hit the highlights.

NEED FOR IDI PROJECT

Dr. NELSON. Some of the previous testimony points out the need for our project. Hunger, and the deprivation in Third World countries are generally a function of the lack of productivity. This project is designed to help U.S. exports, and help overseas development in the private sector.

There is enough food produced in the world. There are enough medical facilities available. It is simply a lack of productivity which produces money with which various countries and counties can buy the necessary needs to prevent human deprivation.

Looking at it in very selfish terms for the United States, if we help those people, we are creating trading partners for the United States, which helps reduce our trade imbalance, it helps employment, and everything else that is good.

The center is designed to be totally self-funding. It is an exhibit center, an educational center, and a research center. We will be inviting government folks, academians, and industry people from the 175 countries to come once a year and learn about the latest technology in their particular field of expertise.

They will learn the latest as put together by about 14 universities that we have on our board. They will see demonstrated in full scale applied research projects, and then they will be better able to make their purchasing decisions.

The center is designed to help the whole of the United States, and not just the Washington area where it happens to be located. After a careful survey, we found that this is the ideal place for it. It is designed to help particularly small and medium size companies to get involved in exporting.

OVERSEAS DEVELOPMENT

In the past, overseas development has been primarily very large companies doing large projects, or the Peace Corps helping a farmer to make it on two acres of land, both of which have been beneficial, but in-between those two extremes is the need and the opportunity for thousands of small and medium scale projects that can help a local region become economically self-sufficient, and where small and medium size companies here can do joint ventures with them or on a contract basis, or on an overseas investment basis, create the productivity, provide the training, provide the commerce that is needed for people to earn money with which they can then buy their food and medical supplies.

In the long run, it could significantly decrease our need for funding for AID, which I think is $4 billion in the private sector, in the military sector, I think it is $8 billion. As people's personal well-being and quality of life increase, their propensity for starting uprisings and revolutions decreases, so there will be less need for military assistance.

EXPORT TRADING COMPANY

An important aspect of this is the export trading company area. We are the first institution to be certified under the Export Trading Company Act. When our institution first became certified, 6 or 8 months ago, and we are still the only nonprofit one, the administration was hoping for many, many export trading companies to be formed.

I think we have designed a model which is better than the one that is generally perceived. As a nonprofit export trading company, the overseas marketing and research services will be done on a joint basis which gives the participating companies protection from the antitrust laws, but they still maintain their corporate confidentiality and do the trading themselves, rather than as an ordinary forprofit export trading company, where participating companies have to create a fiefdom which then doles out contracts, and everyone has to know what everybody else's pricing and proprietary information is, and everybody has to share in the risk.

The thing is being received with great enthusiasm by industry, and we are simply trying to overcome an initial startup chicken and egg situation. We are looking for $5 million in startup funds. The thing is designed to be totally self-funding in the long run, with the revenue from the trade center funding the research and the educational part.

I will be glad to answer questions, as everything else has been outlined in the testimony. I thank you.

[The prepared statement of Dr. Nelson follows:]

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March 20, 1984

EXECUTIVE SUMMARY OF TESTIMONY BEFORE THE UNITED STATES SENATE, COMMITTEE ON APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS

The International Development Institute (IDI) herewith requests a one-time only start-up funding of either a $5 Million matching grant or a $10 Million government loan to develop a trade, research and education center devoted to expand U.S. participation in the world market and devoted to overseas development in the private sector. These funds will be matched with $240 Million of private sector capital over the first five years.

Designed to be self-funding once in operation, the Institute will begin monthly conferences on overseas development this October covering twelve major subjects each year.

Academians, government and industry leaders from the 167 countries will be invited to learn the latest appropriate technology in their field of activity. They will see it demonstrated in full scale applied research projects presented in cooperation with Land Grant Colleges and other research institutions. They will then be able to make their buying decisions with current knowledge on how best to meet their needs at the TRADEXPO - U.S. Trade Center.

A close cooperation with the Agency for International Development is sought and a grant or contract with AID recommended in the Committee's report language would permit IDI to assist private overseas development in those Third World countries where private development is feasible. Thus, the AID budget could be devoted to areas where the political or other constraints on development excludes private sector investment, but where the Humanitarian or Geopolitical factors compel U.S. AID or other government involvement.

The IDI and the TRADEXPO U.S. Trade Center is designed to benefit the whole country and will permit U.S. exporters of goods, services and projects to meet representatives from each of the 167 countries in one convenient location and to negotiate agreements to serve the need of the world market and to reduce dependency by making overseas communities self-sufficient and part of the world economy.

Our detailed statement follows as well as a statement analysing the the IDI and the United States International Trade Center by Senator Huddleston, which appeared in the Congressional Record on March 6, 1984.

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March 20, 1984

UNITED STATES SENATE, COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS
HEARINGS ON THE FY '85 BUDGET

Mr. Chairman and Members of the Committee. I am Dr. Peter Nelsen, an economist and Chairman of the International Development Institute (IDI).

We appreciate this opportunity to submit testimony for the record regarding the FY '85 Appropriation for Foreign Operations.

IDI is a non-profit research and educational institute dedicated to expansion of U.S. exports and the transfer of appropriate technology to improve the quality of life in developed and less developed countries.

IDI was the first organization to register under the new Export Trading Company Act and has developed a system to meet the needs of both U.S. exporters and overseas buyers who desire U.S. products, services and whole development projects and who prefer to fill their needs in the private sector, wherever possible, company to company, instead of company to government to government to company.

Overseas development has in the past been initiated by large multinational companies doing very large projects and on the other end of the scale by AID and the Peace Corps teaching a farmer how to survive on one acre of land.

In between, there is a need and an opportunity for thousands of small to medium scale projects in Third World countries where the local infrastructure or the local population can only support the small to medium scale project, but where such projects would permit the local communities to become self-sufficient and earn the foreign exchange to enter the world market and become trading partners of the United States.

The Senate Small Business Committee last year performed a study of why small business was not entering the export market. An analysis of the 1200 reponses obtained, indicated that 87% of the problems perceived by the companies would be solved by IDI's services if the companies participated in the TRADEXPO export enter that IDI has designed.

The idea came from the Commerce Department where a speaker from their ITA said, "We need a permanent year round trade center where the foreign buyer who comes here can find all the products and services he needs in one place instead of searching all over the country."

This basic idea has been developed over the last six years into an educational center which will present twelve annual seminars on the major aspects of development technology, presenting once a year the latest technology in each category of appropriate technology. Secondly, an applied research center which will test and demonstrate in applied research projects the latest research from the major land grant universities and other research institutions and, thirdly, a trade center where academians, government and industry officials can, after learning the latest information, then seeing it demonstrated, can then purchase the products and services they need with a better knowledge of the opportunities available to meet their needs.

The Congressional Research Service concluded in a report on TRADEXPO on February 15, 1983, that it "would act as a giant magnet, attracting buyers, exporters and potential exporters to Washington. Users of TRADEXPO could learn about specific products and trade related issues. They could view exhibitions, revive old contacts and initiate new ones."

Located in Washington with appropriate sections thereof in nearby Virginia and Maryland, the center is designed to serve the whole United States so that foreign buyers can come here first and see what they need and then make their travel plans to visit the participating companies throughout the United States.

The greatest benefit will be for project development where an entire set of services can be contracted for in one place from feasibility studies to construction of a complete turnkey project to management and training services and continuing extension services. It will benefit both the customer and subsequent customers by logging the experience and analytical evaluation into IDI's data base information system.

Research and transfer of appropriate technology to improve overseas agricultural production present great opportunities for American enterprises to prosper on a contract or joint venture basis. Moreover, improvement in overseas productivity has historically led to a subsequent increase in the export of U.S. products and services.

For example, when we set up a poultry operation overseas, we create an ongoing market for American feed grains; equipment such as egg hatchers, baby chicks, egg cartons, poultry processing components; and the like. The same scenario applies to many other industries.

The major growth potential for U.S. export lies in Third World markets, where more than 150,000 U.S. companies have export capabilities, but only a small percentage of these companies are able to take advantage of the opportunties. We believe developing this potential through the Institute's trade and development programs would significantly reduce our foreign trade deficit.

We anticipate that 700 acres dedicated to the project at the beginning would soon expand to 3,000 acres, and that within five years we would have 5,000 exhibitors.

TRADEXPO, along with its companion education/conference and applied research centers, is projected to generate 12,000 new jobs in the Institute itself and approximately 30,000 jobs for each billion dollars worth of exports of the companies that it would serve.

IDI is designed to be totally self financing once it is in operation with the space rental revenue funding all the support services and the net revenue funding the educational and research divisions.

We are asking for a one-time-only matching grant of $5 Million, or direct loan of $10 Million, to cover a portion of the start-up costs. Once the program is underway, we will be fully supported by private enterprise and our controlled expansion would be governed by the level of this support.

We are requesting you in your report language, to direct those pertinent agencies with export or development budgets to make these funds available.

We have made three proposals to the Agency for International Development. So far the response has been that AID could not fund a trade center, but the TRADEXPO is only an essential part of the Educational and Research Divisions which are dedicated to provide the services which are within the AID area of activity. Thus, the funding could be directed there. Furthermore, AID did a technology exhibit in Africa which was the same as a trade center and is now planning one for the Philipines.

We find in surveying exporters that it would be far more efficient to bring the people here from the 167 countries rather than having our exporters expend U.S. dollars overseas to try to reach all these markets.

Another response from AID was, "yes, IDI has a highly qualified staff, but since they have never done an AID contract together, we would not get one now." In otherwords, you have to have done one to get another one.

IDI is not intended to compete with AID. We wish to cooperate in every way possible and a one-time appropriation in the form of a contract, a grant or a loan will permit IDI to arrange overseas development services in a large group of third world countries where private initiative development is feasible either on a contractual basis, joint venture basis or as a U.S. investment project.

Thus, AID funds that are now allocated year after year for these countries could either be reduced or reallocated in the "basket case" countries that do not present an economically feasible investment climate for U.S. participation in the private sector, but where the humanitarian and/or geopolitical needs are compelling enough to warrant U.S. assistance.

Vol. 130 WASHINGTON, TUESDAY, MARCH 6, 1984 No. 25

Congressional Record

ADDITIONAL STATEMENTS

A NEW IDEA TO PROMOTE U.S. EXPORTS

● Mr. HUDDLESTON. Mr. President, I would like to call to the attention of my colleagues the new International Development Institute (IDI) and TradExpo, the U.S. International Trade Center, which together, after 7 years of research and design, are scheduled to open by the end of 1984.

The IDI and TradExpo concept form a new and innovative system to increase U.S. exports and overseas development in the private sector. It is particularly designed to help small and medium size companies to enter the export market and to give all American enterprise access to markets in 170 countries with a year round world trade center, educational center and research center.

The health of our economy is a primary concern to the welfare of the American people. If our economic health is to be maintained, we must make progress toward increasing seriously lagging exports from the United States and participating more competitively in the global marketplace.

There appears to be no argument with the assertion that vigorous U.S. exporting is desirable. One out of every eight jobs, says the Commerce Department, depends directly on exports. America's foremost comparative advantage, agricultural products, accounts for $2 out of every $5 worth of our exported goods, and comprises a large and vital part of the American farmer's income. Our exports are also crucial, in financing the purchase of ores and oil, which we cannot produce in the amounts we need. We are firmly locked into export trade as a determinant of our national well-being.

There is further consensus that our exporting income is rapidly spiraling downward. Our share of the world market has fallen from 23 to 14 percent over the past two decades, contributing to the huge trade deficit projected for 1983, topping $60 billion and resulting in 40 percent of the increase in unemployment. American farm exports have declined from a high in fiscal year 1979 of $43.8 to fiscal year 1983's $34.5 billion, a 21-plus percent plunge.

Informed opinion is even confluent about what has caused our waning overseas sales:

A worldwide recession that moderated demand while price supports and other factors kept production high;

A musclebound dollar which overpriced our goods and services in world markets;

Economic advantage taken by other countries, especially in Japan and Europe, by means of protectionist policies; and

The perception elsewhere that the United States is an unreliable supplier, given past policies that attempted to use trade as a political lever.

SOLUTION

Where thinking diverges, however, is in deciding upon a proper course of action to remedy this bad situation, which is growing steadily worse. Recent Federal response has been to provide limited governmental assistance while attempting to create an improved trading climate by subduing inflation, negotiating away protectionist policies, and instituting long-term guarantees that rule out the use of trade as an international nightstick. Beyond that, Federal officials insist that export business should be stimulated primarily through private initiative, and we agree.

In hearing before the House Agriculture Committee in February 1978, Dr. Peter Nelsen, chairman of the International Development Institute and the Agricultural Trade Council, said to those present that America needs improved marketing and production techniques to first balance foreign trade, second, stabilize our farm economy, third, decrease unemployment, and fourth, use our production potential to allay the hunger of the world. These problems are still with us and, despite efforts to solve them, some have grown worse than they were when IDI and TradExpo were proposed 7 years ago. We must awaken to the reality of these problems, understanding that not to decide is, indeed, to decide.

It was from the need for greater foreign sales efficiency that a new approach, operating in the private sector, was developed to meet all the needs of suppliers and buyers in export trade. The system that has been proposed as part of the solution to our shrinking presence in world markets is composed of two complementary, nonprofit corporations: the U.S. International Trade Center (to be called TradExpo) and the International Development Institute (IDI).

HOW TRADEXPO AND IDI FUNCTION

TradExpo and IDI are designed to provide American businesses, which have an unrealized export potential, with an efficient, cost-effective way to reach foreign buyers. While trade centers are not a new idea, teaming a large, central and permanent trade exposition with educational and research services that draw informed customers and encourage interdisciplinary understanding is an innovative step that exceeds the scope of state or regional centers.

TradExpo, a private, nonprofit trading company, and the first to register as such under the Export Trading Company Act of 1982, will provide a direct and accessible link between American sellers and foreign buyers. It is anticipated that the year-round, permanent trade center will, at completion, have facilities in Washington and a nearby rural site for 5,000 businesses to display and demonstrate their goods and services to the 200,000 foreign shoppers who circulate through the capital area annually.

Expert, on-the-spot, up-to-the-minute informational services will be available at TradExpo, expediting the complex legal and financial arrangements that often impede foreign trade. Buyers can, therefore, make their purchases without confusion, delay or further travel. Exhibitors' fees at TradExpo will be modest and should be far more cost-effective than formerly existing means of penetrating foreign markets.

TradExpo will thus successfully address the needs of smaller businesses. These needs were stated, analyzed, and discussed in a 1982 report by the Senate Small Business Committee. As a member of that committee, I helped to initiate and draft this report. The report said that of nearly 1,200 surveyed firms, most said they were reluctant to export chiefly because they lacked the necessary specialized expertise, and/or their limited budgets were strained in meeting the high cost of reaching foreign buyers by traditional means. The report also pointed out that only 200 firms control 80 percent of America's exports, even though "20,000 small firms in this country have the potential to competitively and profitably market their products overseas. Clearly one of the greatest opportunities for reversing the no-growth trend in our Nation's exporting lies with tapping that potential and increasing the number of small business exporters." Analysis of the committee's report indicates that TradExpo facilities will help solve or alleviate 87 percent of the problems facing these potential exporters.

IDI, TradExpo's companion corporation, is also designed to meet informational needs of buyers and sellers. IDI is an educational and applied research institute that will form a link between what we learn each year about technological advancement and putting that knowledge to work.

IDI's Education Center will conduct monthly seminars on 12 major categories of technology affecting human needs: fisheries and oceanography, health, education, productivity, energy, forestry, transportation, agriculture, nutrition, communications, water, and housing. These seminars, open to TradExpo participants and invited guests from worldwide business, academic and governmental communities, will keep world leaders abreast of the latest developments in their respective fields and provide a forum for interdisciplinary discussion. The education center will also offer graduate and undergraduate study programs, in cooperation with four Washington area universities, multilingual technical training programs, and nuts and bolts courses in exporting.

That such educational endeavors can create a multiplying effect on trade was among the points made by Nelson Denlinger of U.S. Wheat Associates, Inc., in a statement to the House Agricultural Committee this fall. Denlinger said:

> We have found that market educational programs have paid very large long-term dividends to U.S. wheat exports over the years.

Donald V. Earnshaw, Deputy Assistant Secretary of Export Development in the International Trade Administration, said in his testimony before the same committee that his organization had successfully carried out overseas conferences and seminars on the fundamentals of exporting to the great advantage of all participants.

IDI's Applied Research Center will, on request, suggest appropriate technological systems suitable for use in specific locations and test how well technology in place functions. It will keep an extensive data base, assuring that access to the most recent technological improvements is available. Perhaps the center's most important function, however, is carrying out demonstration projects either at IDI facilities or at onsite locations overseas, aimed at developing the infrastructure of Third World countries. These midsized projects could fill the gap between the small Peace Corps development efforts and huge aid projects undertaken by large businesses or governments. They will differ from most previous projects in a greater emphasis on followthrough; rather than carrying out a feasibility study, designing a solution, installing necessary equipment and considering the job finished, IDI's projects will consider technical training, management advice and project evaluation necessary before viewing a project as complete.

TradExpo and IDI will produce a wide range of positive change. Smaller companies will be able to begin selling internationally, and larger businesses can establish or expand existing overseas contacts. Direct transactions will be simplified, more efficient and hence, less costly. Rental of exhibit space at TradExpo is designed to be less expensive than participation in a series of regional trade shows.

Advantages to overseas buyers include the convenience of one-stop, anytime shopping; full comparison and demonstration of products; simplified transactions; and, access to the services of the education and research center.

The system also works toward solution of persistent Federal Government problems. A 10- to 12-percent increase in U.S. exports would reduce the trade deficit by 50 percent, increase GNP by 1.5 percent and provide hundreds of thousands of new jobs. TradExpo will also answer many of the loudly voiced needs of smaller businesses and create corporate and individual tax revenues without huge governmental expenditures. Finally, TradExpo will serve as an export stimulant without necessarily resorting to retaliatory measures in order to counter protectionist policies of many foreign nations.

Private citizens will gain from TradExpo's encouragement of economic growth, reduced necessity for foreign aid programs, diversity of available products resulting from the strength of smaller businesses, and the general stability of the world that follows active trade interdependence.

TRADE AND THE DEVELOPING WORLD

All countries, particularly Third World countries, at present require appropriate technology and services to show them how to best utilize their purchases. TradExpo and IDI can assume a large part of this challenge. If the United States does not satisfy world needs, other countries will reap the consequent benefits. American interest certainly lies in developing infrastructure and in establishing trade relationships with LDC's, resuming a leadership posture there before these huge potential markets become dominated by other, more aggressive nations. As Roger Asendorf of the American Soybean Association told the House Agriculture Committee this fall:

> ASA believes the Federal outlay for overseas market development for agricultural commodities is one of the U.S. Government's best investments in the future prosperity of not only agriculture, but the national as a whole.

In many areas of the world, basic needs are immediate and pressing. The times challenge the humanity of the world, for even though some 800 million people on this planet experience hunger and starvation, agricultural commodities are in surplus in a number of countries. A kink in the circulation of resources leaves some countries impoverished and hungry while others pile up unsold surpluses.

Overseas development projects, such as those available through IDI, will assist countries and people to develop the capacity to earn what they need. They will be able to turn labor to capital, and capital to the necessities of life and further improvement. As the capacity to import is developed in LDC's, the global distribution of agricultural products will improve, thereby reducing the problems of surpluses in producing countries and unmet demand in LDC's.

ACTION

Speaking for the Agricultural Trade Council before the House Agriculture Committee in February 1978, Dr. Nelsen said that if a fraction of expenditures for sudsidies and set-aside programs were spent on market development and the establishment of sound infrastructural bases for trade in LDC's, problems of the farm economy, of unemployment, of the trade deficit and of sluggish GNP growth would diminish. This fall, nearly 6 years and little action later, W. Glenn Tussey of the American Farm Bureau Federation posed the same question to the same committee: "We ask if we would not be further (sic) ahead 5 years from now in world markets if we were to shift a substantial portion of domestic farm expenditures to an effort that would make us truly competitive in world markets?"

Secretary of Agriculture John Block told the same Committee, "* * * the productive capacity of our farmers * * * must be supported * * * by domestic farm programs that facilitate export." Secretary Block offered no program, but insisted, "There must be a better way."

The better way may be through efforts such as TradExpo/IDI, which have been carefully examined and praised by business and academic leaders, Governors, officials in the executive branch, and Congress. It is an approach that will stimulate the economies of all 50 States, individually and collectively, even as it puts fresh knowledge to use and encourages the shift of developing countries from demeaned recipients of charity to friendly, self-sustaining trading partners. It is in the interests of both U.S. industry and Government to support this kind of innovative program.

Unlike most Government-funded aid programs, TradExpo and IDI will provide ongoing benefits, without the need for continued Government assistance.●

United States
of America

INPUT BY COMMERCE DEPARTMENT

Senator KASTEN. You mention, Mr. Nelson, that the idea came from the Commerce Department.

Dr. NELSON. Yes.

Senator KASTEN. It seems to me that it is really a Commerce Department program, and it seems to me to be something that the Commerce Department would cover. It would maybe be out of State, Justice, and Commerce Appropriations, if it came out of the Appropriations Committee at all.

What does the Commerce Department say about including your program as part of their request?

Dr. NELSON. They have all said that they would be glad to cooperate with us in any way once we get into operation, but they had no money for start up capital. Their budget was all laid out.

So if by either committee report language, or some such way, we could make Mr. Baldridge put some discretionary funds in this project, it would be great leverage. Not only, as I said, this is one-time funding, but the leverage is enormous. The $5 million is designed to be a $240 million project altogether over 5 years. To call it matching funds is almost ironic.

We are here primarily because the need is project development overseas. Strict exports are fine, except that people overseas like to buy turnkey projects. If they want a poultry operation, or a dairy operation, we will have model operations that make a building, and 50 manufacturers putting their equipment in there, and someone from Nigeria can say: How much is that dairy operation located in Nigeria as a turnkey project?

This enters into the area of AID. The educational programs that have to do with this development is definitely in the area of AID. It has been one of the sticky points where AID says: We don't want to be involved in trade centers.

Part of the problem in obtaining our nonprofit status from IRS was that IRS said: How can you have a trade center that is nonprofit? We said that the trade center is the financial engine for the research and the educational part. We have finally had to incorporate the trade center separately, and it is owned by the nonprofit institution, thus, we now fit in under the umbrella. AID has more money available than Commerce has, and ITA, the International Trade Administration.

Senator KASTEN. If you are telling me to put in report language that Mr. Shultz will read, that is one thing. Mr. Baldrige doesn't read my report language. I don't have any thing to do with the Commerce Department at all. Nevertheless, we appreciate your testimony and we thank you for appearing.

Dr. NELSON. Within the Science and Technology area of AID, there are activities that match ours, and that is really the main reason that we are here.

Senator KASTEN. We thank you.

Dr. NELSON. Thank you very much, Mr. Chairman.

Senator KASTEN. Our next witness is Mr. Peter Huessy of P.R. Huessy & Co.

Peter, thank you for joining us.

P.R. HUESSY COMPANY

STATEMENT OF PETER R. HUESSY, P.R. HUESSY & CO.

WORLDWIDE POPULATION PROBLEMS

Mr. HUESSY. Thank you, Mr. Chairman, for giving me the opportunity to share with you the conclusions of a major and, I think, first of its kind report on the population problem that has recently been concluded, which I served as a senior advisor to.

I am not going to read my statement in the interest of brevity. I am just going to summarize it and ask that it and just a small amount of additional material be placed in the record.

Senator KASTEN. Your statement will appear in the record as if read. We appreciate the fact that you will summarize it.

Mr. HUESSY. Thank you.

I think there is no question that population growth in the Third World is a grave threat to the security of this country, the Western industrialized world, and the Third World. In fact, every President since Eisenhower has said so. In fact, President Reagan, I think, has said, in one of the more eloquent statements on the subject:

> The human population of the world is now nearing 4 billion, and is expected to double again in 32 years. Unless major efforts are made to reduce that growth, vast numbers of people will face severe famine and misery. Our country and state have an obligation to work toward a stabilization of our own population so as to credibly lead other parts of the world toward population stabilization.

The genesis of the report in question came from a number of people who had worked for 30 years in the population business, had founded population organizations themselves, and had worked overseas in a number of countries. They were deeply concerned that recent statements, particularly in the latter part of the 1970's, that the population explosion was either over or being contained, were not credible and were not based on facts, and that the policies adopted to date, though helpful, were not going to get at the population problem.

To give an example of some of these optimistic statements that were read and printed. In 1977, the New York Times published an article by David Byrd called, "Population—Winning the War," in which it was predicted by the Population Reference Bureau that the world's birth rate would decline from 30 per 1,000 to 20 per 1,000 in 10 years. They were basing that on 1974 numbers, and now we have 10 years from that period to look at.

This was published by the Population Reference Bureau last year, so it is almost 10 years. The world's birth rate, according to this chart, is 29 per 1,000 compared to 30 per 1,000 10 years ago. This is a 3-percent decline, and not a 33 percent decline.

Paul Dumaine of the Population Council testified this morning before the Joint Economic Committee:

> There is a spreading popular belief which holds that the demographic explosion that imposed so heavy a strain on the economies of the developing world during the sixties and seventies has passed its peak. A corollary of this belief is the proposition that demographically developing and developed countries are converging. The table demonstrates, with respect to these numbers, that these optimistic assumptions are utterly unfounded.

INCREASE IN POPULATION EXPLOSION

I think the findings of the report echo Mr. Dumaine's findings, which is that the population explosion has increased in severity. In fact, if you look at the Third World, the growth rate, excluding China, has actually increased. According to the Population Reference Bureau, the worldwide growth in population, including all countries, increased between 1982 and 1983, the first such increase in over 10 years.

I think in addressing the family planning programs in the 10 largest, less developed countries, the report concluded that by and large they have not addressed the problems and they have failed probably, with the exception of Thailand and Indonesia. The other eight major countries that were studied were found not to have succeeded.

It was pointed out, and I think this is a very important point that birth rates decline in some of these countries were initiated long before family planning began. In other countries, such as Egypt, when family planning began, although you had a small decline in the birth rate, between 1974 and 1982, the birth rate in Egypt increased in every one of the years, so that by 1983, again according to the Population Reference Bureau, the birth rate was 43 per 1,000 which was unchanged from 1965, almost 20 years ago, when the programs began.

I think what is not addressed by family planning is that the people of these countries want large numbers of children, between four, five, and six. They want these children for a lot of reasons, but the fact remains, even where contraceptives are widely available through family planning programs, couples in these countries want four, five, or more children. So in a sense, the problem is that people plan their families, but they plan large ones. The key is how to get them to plan small ones.

Much is made of the fact, for example, that surveys show that people want to use contraceptives. This is true. But what is not pointed out is that they want to use contraceptives to achieve certain objectives—either to space four, five, or six children, or to stop having additional children after they have already had four, five, or six children.

Fred Pinkham, who is the chairman of the Population Crisis Committee and one of the major advocates of family planning programs, testified a number of years ago that, by and large, couples that want family planning services want to do so after they have had four, five, and six children.

Take, for example, Indonesia, or Egypt, or any of the countries that this study looked at. In all of these countries, we looked at what the desired family size was in 1965 or before, and what it is from the latest available data, between 1975 and 1983. We found surveys done by either the World Fertility Survey, the Population Council, or the Population Reference Bureau.

Just to give you five examples. In Indonesia, in Pakistan, India, Bangladesh, and Egypt, the desired family size either stayed the same or went up. Only in the Philippines did it go from about five children per couple to a little bit more than four, and it is uncertain whether that is really a decline or they just had a different data base.

I think the report also found that family planning funds in these programs are not necessarily being spent in the best way possible. Recommendations for change by the United Nations, by internal review groups, by the Population Council and others, have simply been often ignored.

We found a lot of money, what we thought was too much money, being spent on travel, conferences, and meetings. That excessive funds are being spent on administrative staff and salaries which are more closely connected to health care than population growth limitation work.

We also found, for example, in the World Bank programs, that an internal review team said that they felt that the Bank should not include targets in their programs for birth rate reduction because the programs wouldn't meet the reductions, and if they didn't meet the reductions, then you would end up with the Bank being criticized for having failed.

POPULATION POLICIES

We also found that the idea that governments around the world have adopted what are called "population policies," a point that Werner Fornos made this morning, is simply not true. I would like to quote to you a comment by Sharon Camp, again from the Population Crisis Committee, testifying this morning: "Official policies to reduce population growth have not yet been translated into effective program implementation." That is a quote from someone who is a very strong supporter of family planning, which I am, too.

It shows you that just because a country has a policy on paper does not mean that it is being implemented effectively, nor does it mean that if they implement it, it is going to work, because family planning in Bangladesh, for example, means that couples can plan for five children. The fact that they are planning four or five children now contributes to the growth rate that they now have, which is near 3 percent.

For example, in my prepared statement, I point out that family planning is 100 percent successful in Bangladesh. The population will go from 90 million people today to 180 million people in 30 years, because that is what four and five children per couple will produce.

I think, parenthetically, that one of the key aspects of the population problem that we are not seeing, that we don't connect with, is illegal migration and the tremendous increase in the labor force in the Third World.

What the report that I was part of has pointed out is that the population explosion has been transformed. It is now a labor force explosion.

These people are moving across boundaries, and they are coming to this country illegally.

Finally, let me finish on a hopeful note.

There are countries in the world that have done something, I think, to dramatically reduce desired family size. China, Singapore, Sri Lanka, South Korea and, to a very small degree, Indonesia and Thailand, have actually undertaken programs to give people an incentive to have small families.

My testimony reviews in a little bit of detail that Korea, for example, reduced family size from over four children per couple to three during the 1970's, and Singapore reduced desired family size from over four to two children per couple. When contrasted to these other countries that I have mentioned, where desired family size has either stayed the same or gone up a little bit, I think the contrast is very important.

Let me finish by pointing out that Congress itself, in the Foreign Assistance Act, as amended a number of years ago—I have to say that I had something to do with that amendment—changed the language to say that AID should encourage people to have smaller families. Let me quote the language to you, "To build motivation for smaller families." That is right in section 104(d). The report language that came out on that said that AID should not concentrate so much on helping people plan large families, but help them to plan smaller families.

I would just finish by saying, Mr. Chairman, that if people continue to desire four, five, and six children, no matter how widely available family planning programs are, the population will not stabilize, it will not grow to just 8 billion. It probably will go to 12 billion and beyond, and I think that that is fairly well documented in our report.

I hope that I didn't go over too much, and I will be happy to answer any questions that you have.

[The prepared statement of Mr. Huessy follows:]

PREPARED STATEMENT OF PETER R. HUESSY

FOREIGN ASSISTANCE AND POPULATION GROWTH

There is widespread agreement that population growth in the third world is a grave threat to the future economic wellbeing of people everywhere. Over the past twenty years, the U.S. Government has supported family planning programs in the third world in hopes of lessening the severity of the population explosion. Three years ago, the Orkand Corporation of Silver Spring was asked to study the impact of these programs on the population explosion,to determine whether they were adequate to the task at hand, and to assess the nature and severity of the population problem.

That report has now been completed. For the first time, a comprehensive assessment of family planning programs has been completed. Programs funded by the U.S. Agency for International Development, the World Bank and the United Nations Fund for Population Activities have been examined, along with their impact in the world's ten largest less developed countries- India, Indonesia, Pakistan, Bangladesh, Thailand, the Philippines, Brazil, Mexico, Nigeria and Egypt. The severity of the population problem in each of these ten countries has also been assessed, and recommendations outlined for possible future action.

In light of the dramatic growth in the level of funding of population assistance programs over the past year, this Committee should carefully examine whether existing funding levels are warranted and whether the programs as they are now structured should be changed.

The findings of the report are as follows:

1. The population explosion in the developing world has increased in severity. Population growth rates in the developing world(if China is excluded) have not declined; there is some indication that they may in fact have increased. World wide, the population growth rate increased between 1982 and 1983, the first such increase in over a decade. Each year, more people are being added to the population of the third world than at any other time in history. In short, the population explosion is in full swing.

2. Family planning programs have not been addressing the population explosion; in countries such as Egypt, India, Pakistan, Brazil, Bangladesh, the Philippines, Nigeria and Mexico they have failed. In Thailand programs appear to have been successful, in part, while previous good results in Indonesia appear to have slowed considerably.

3. Birth rate declines in some of these countries were initiated long before family planning programs were adopted. In others, such as Egypt, family planning programs were in existence as national birth rates increased.

4. The critical problem in all of these countries is that people want and have between 4-6 children. They want this number of children for a number of important reasons, but the fact remains: even where contraceptives are widely available through family planning programs, couples in these countries want 4,5 or more children. Families plan their families everywhere. Thus, the absence of "family planning" is not the problem. The problem is family planning. If couples continue to plan to have 4-6 children, the populations of these countries will continue to double every 25-35 years. This is the problem. Population growth now represents the fact that people are having 4-6 children, even when the use contraceptives.

5. In fact, although much has been made of surveys that show that couples want to use contraceptives, what is not pointed out is that they want to use contraceptives to achieve certain objectives: to space 4-5 children or to stop having additional children after they have already had 4-5 or more children. Thus in countries such as Nigeria and Egypt, the birth rate has been moving upward over the last decade even while family planning programs were increasing in scope. In Egypt, for example, the national birth rate increased from 34 to 42 per 1000 between 1974 and 1981; since that time it may have declined to 39 per 1000, but it still remains above the birth rate level of 1974 and nearly the same as it was when family planning began in 1965. In countries such as Indonesia, considered a "success" story, the birth rate declined from 46/1000 to 41/1000 before family planning began, and has since declined to 35/1000(or higher) since that time. We found in this report a universal trend---birth rates were declining before family planning programs began. Thus the programs were more a symptom of the decline than the cause of the decline. In countries such as Pakistan and Bangladesh, there appears to have been little if any change in national birth rate levels for the past 20 years.

6. The report also found that some family planning funds are not being spent wisely and that recommendations for change, by family planning organizations themselves, are being ignored. We found that far too much money is being spent on travel, conferences and meetings; that excessive funds are being spent on administrative staff salaries which are more closely connected to health care work than population growth limitation; and that program review findings that such programs are not working have been universally ignored. The report also found that program objectives are couched in very general terms that make assessment difficult. In the case of the World Bank, an internal review team recommended that the Bank not include birth rate reduction targets in programs for fear that programs would not be able to achieve such targets. In the case of the United Nations, we found that a review of the Bangladesh program concluded that the program was simply reaching people who wanted large families---4-6 children. By helping these couples plan large families, the program was simply exacerbating the population explosion, even though government officials were continually assured that the program would cause people to want smaller families. The recommendations for change by the review team were ignored. In fact, the budget allocated to Bangladesh was increased and no program elements were changed. This is the case in many of the programs reviewed for this report, including those run by non-governmental organizations.

7. The report found an extraordinary gap between the claims of family planning "success" on the one hand, and actual results on the other. The report found that claims that governments throughout the third world have adopted "population policies" to deal with the population explosion are untrue--governments have simply adopted support for family planning. This does not mean that the population problem will be addressed. For example, if Bangladesh supports family planning, which it does, it is simply asserting its support for the right of couples in Bangladesh to plan their families. How many children to people in Bangladesh want, on average? Between 4-5 children. Thus, if family planning is 100% successful, the population of Bangaladesh will simply grow from its present 90+ million to 180 million in 30 or so years. And as long as people in Bangladesh continue to want to have 4-5 children, family planning will simply continue the growth in population which is causing such a serious problem in that country.

8. As for the severity of the population explosion, it has worsened in the third world. Agricultural production has been harmed by increasing environmental deterioration and increased farming costs, especially as marginal farmland has been brought into production. Energy production per capita in the developing world, in non-oil producing states, remains very low, often at levels lower than U.S. energy production per capita in 1870, at the start of our industrial revolution.

9. However, the real magnitude of the population explosion can be understood only by looking at the second population explosion--the tremendous and historically unprecedented growth in the labor force of third world countries. In troubled Latin America, for example, the growth in the labor force is equal to that of the United States each year; but these nations have only one-third the U.S. GNP to generate jobs for the legions of unemployed, and they must generate this large number of jobs simply to keep unemployment from worsening. Between 1975-2000, the third world needs to generate nearly 1 billion new jobs, or equal to the work force of the entire industrialized nations multiplied by a factor of three. And it is this labor force explosion which is significantly contributing, often causing, the large scale increase in world-wide illegal migration.

10. Finally, the report concludes on a hopeful note. A number of countries, including South Korea, Singapore, Sri Lanka, China and to some degree Thailand and Indonesia, have adopted real population policies. These policies understand that the population problem is centered in the desire of people to have large numbers of children. In each of these countries, most notably in Singapore and South Korea, economic and legal incentives have been adopted to encourage people to have smaller families, preferably only two children per couple. In each of these counties as well, disincentives have been adopted to discourage people from having large families. They appear to have worked.

11. In Singapore, in the early 1970's, the government was faced with an increasing birth rate and an average desired family size of 4 children. In the space of 5 years, incentive and disincentive programs were adopted in the fields of housing, education, health care, for example, which reduced the desired family size to cxlose to two children.

In Korea, the country was informed by a UN study team in the late 1960's that the family planning program adopted in 1963 was not going to succeed in dealing with the countries population explosion. Korea followed this up with a large series of incentive and disincentive programs which appear to have reduced the birth rate to near the Chinese rate and to a point where the average desired family size in Korea is about 3.0 children.

When compared to other countries that have adopted only family planning, the contrast is clear. In Indonesia, Pakistan, India, Bangladesh, Egypt, Mexico,Brazil, and Nigeria the desired family size has remained unchanged over the past twenty years; in Thailand, it has declined to some extent; and in the Philippines, it has declined from 5 to somewhat above 4 per couple. In some of these countries, the data indicates an actual increase in desired family size.

It should be noted that Congress has amended the Foreign Assistance Act to require AID's population programs to give assistance to policies and programs to encourage people to have smaller families, "to build motivation for smaller families", and not concentrate solely on helping people plan large families.

Let me conclude my quoting from the conclusion of the report:

> "Even the best birth prevention method will be of use only if the persons concerned are convinced that the attainment of this goal is in their interest. Family

> planning programs do not and have not taken this consideration into account—the fact that the population in most developing countries still intentionally desire a large number of children.
>
> "Existing population policies are timid and ineffective. Unless prompt changes are made in such policies, the population explosion, serious as it is, will become completely unmanageable. If decisions for change continue to be delayed until the problems worsen, options to effectively deal with the population explosion, short of outright force, will be severely limited, perhaps eliminated...Much more can and should be done to control the population explosion. In fact, the tools are at hand for such an enterprise if we would have but the courage and boldness to use them."

Copies of the report "To Inherit the Earth: An Inquiry into the Population Explosion and The Future" can be secured by writing:

Population Reports International
Suite 601
1701 K Street, N.W.
Washingon, D.C. 20006

or calling:

Peter R. Huessy at The Center for Strategic and International Studies, Georgetown University, 775-3207.

DESIRED FAMILY SIZE

Senator KASTEN. First of all, if I remember what Mr. Fornos said earlier today, he said that we have reduced average family size or the desired family size from seven or eight down to four or five. So that is progress, but not progress enough.

Are you saying that is right, but we are concerned with four or five. Or, are you saying that in your information no progress has in fact been made?

Mr. HUESSY. I would say the latter, and let me explain this. This is a point that I think is not very well understood.

The surveys that we found from the Population Council in the early 1960's give no indication of the desired family size of six, seven and eight or more children.

What you are seeing, in many of these countries with high death rates in the early 1960's and late 1950's, eight children would be born—that would be births—and they would only want, let's say, four or five. Three children or so would die in infancy, and the completed family size was very close to the desired family size.

A birth rate of eight children per couple and a death rate of three children per couple still produced a growth of five. So when you reduce the death rate, you can come down on the fertility rate, and five or six children are born, and it is closer to the desired family size.

Don't get me wrong. I am not advocating that we go back to high death rates and even higher birth rates, but desired family size, which is critical now in most of these countries is very close to the average number of children ever born, which is a term that demographers use.

There is a slight gap, particularly in Africa and South Asia, where the death rate is very high. But if you eliminated a lot of infant mortality, you would cut the birth rate a little bit, but the desired family size would stay the same, and that is what is building this enormous tidal wave of people who are now coming into the labor force and causing such instability in the world.

FAMILY PLANNING FUNDS

Senator KASTEN. In point No. 6 in your prepared statement, you state that you also found that family planning funds are not being spent wisely, and that recommendations for change by family planning organizations are being ignored. Too much money is being spent on travel and conferences and meetings, and excessive funds are being spent on administrative staff, et cetera.

Mr. HUESSY. Yes.

Senator KASTEN. I would just like to ask that you provide the committee with detailed information on those findings, to the degree that you have been able to identify excessive travel, excessive conference, excessive funds being spent on administrative staff.

We urge you to do that, and we would like to work with you and others who worked on these studies in terms of trying to determine what is going on out there. If you would be good enough to provide us with more detailed information to back up those statements, it would be helpful.

Thank you for your testimony here today. I also thank you for your patience, being No. 15 out of 15, but we are pleased to have your testimony.

ADDITIONAL SUBMITTED STATEMENTS

I would like to remind all of the witnesses that the record will remain open for 1 week, during which time additional statements may be inserted for the record from those who were unable to appear in person.

[The statements submitted subsequent to the hearing will appear in the record at this point.]

PREPARED STATEMENT OF HARRY J. SHAW

Mr. Chairman, Members of the Subcommittee on Foreign Operations Appropriations, I welcome this opportunity to share with you insights gained over sixteen years of intensive involvement in the executive branch with security assistance policies and programs. This involvement spanned the years from my participation in a 1965 reappraisal of the military assistance program for Secretary McNamara to my retirement in 1980 from the Office of Management and Budget where I had been Chief of the International Security Affairs Branch (earlier the Military Assistance Branch) for thirteen years. In the course of my duties in Defense and OMB, I visited some twenty-six different countries receiving security assistance around the world, many of them on several occasions. During the last months of the Carter Administration, I was a consultant to the Deputy Secretary of State on an integrated review of all the foreign affairs budgets.

During the last three years of teaching foreign affairs at the University of Virginia I have been a somewhat more detached but no less interested observer of our security assistance program. My basic views. were set forth in an article in the Spring 1983 issue of *Foreign Policy*. In the interest of brevity I will not repeat the arguments set forth in my article except as they seem to be especially important to the issues posed by the Reagan Administration's security assistance proposals for 1985.

I appear before you as a private citizen, representing no agency of the government, no think tank, no special interest group. As many citizens are, I am profoundly concerned about what seems to be an overly-militarized foreign policy and the role that security-related foreign aid plays in that foreign policy. Moreover -- and this is only partly a consequence of my budget background -- I am equally disturbed about the enormous increases in the federal budget deficits of these last three years.

If there were but one point I could make to you, it would be that budget control -- reduction of the deficit -- begins at home! By that I mean that if the Congress is to do its part in eliminating these horrendous deficits then each committee must do its part by ruthlessly eliminating all but the most critical elements of the programs for which it is responsible. You have before you a request for nearly $10 billion in security assistance. A reduction of $1 billion would constitute one two-hundredth of the likely deficit for 1985. Two hundred such tough decisions would eliminate the deficit. There is no other way to get there.

I cannot but believe that the administration's proposed $10 billion security assistance program could be cut by as much as $1 billion without serious harm to the security of the United States or to its foreign relations. I have watched with dismay and disbelief as this program has grown over the last three years from $5.5 billion in 1981 to the $10 billion level in 1984 and 1985. What indeed has changed in the world to justify increases of this magnitude? No wonder our budget is out of control.

While security assistance has grown by 80% since 1981, development aid has increased only modestly from $4.5 billion in 1981 to $5.4 billion in 1985 as proposed by the Administration, a 20% increase. This undoubtedly understates the actual development assistance contribution since the Economic Support Fund (ESF) is used where possible for development purposes. Nevertheless, the bias toward security-related foreign aid in this Administration cannot be denied.

There are, in my judgment, three principal reasons for the excessive growth of the security assistance program. First, is that the largest element and the one that accounts for most of the growth, Foreign Military Sales Financing, has been off-budget. This program surely would not have been increased from $2.9 billion in 1981 to $5.7 billion in 1984 if it had been on-budget where its budget authority and outlays had to be counted in budget totals.

The second cause for increased security assistance lies in the growth of the _quid pro quos_ offered to allies for military base agreements. All of the base agreements negotiated by this administration -- for Spain, Turkey, Greece, Philippines, Portugal -- have entailed large increases over assistance levels agreed to in previous rounds of base negotiations. Having been involved in the intense interagency debates over assistance levels to be offered for bases during my years in OMB, I am well aware of how difficult it is to keep these offers within bounds. Only a strong OMB willing and able to do battle with State, Defense and the NSC staff, and acting in advance with the President's backing can keep base _quid pro quos_ under control. Moreover, it is essential that the prevailing sense in the executive branch be that Congress will not underwrite major increases in overall program levels. Under these conditions there will be strong countervailing pressures elsewhere in the foreign aid community to resist parochial arguments for increasing particular country programs lest these commitments preempt limited future funding levels.

The Reagan Administration let this matter of base agreement commitments get out of hand. Once one country sees another country get a substantial increase over the last time, it will demand equal treatment when its own base agreement comes up for renegotiation, and the problem snowballs. The Reagan Administration, unfortunately, scrapped the new commitments procedures adopted by Presidents Ford and Carter which grew out of procedures reaching back to the NSC 1550 directive of the Eisenhower Administration. The Ford and Carter directives, signed by the President, required their personal approval in advance of any future commitments beyond approved budgets, that approval to be obtained through the Director of OMB.

As I have suggested, the Congress has played an essential though indirect role in restraining these multi-year commitments which preempt whatever funds are available in future years and increase pressures for increasing overall program levels. When the Congress is perceived as likely to go along with increased commitments, as I believe it has been rightly perceived in this administration, overall security assistance levels are bound to be levered up. I urge the committee to consider ways in which it can prevent the executive from preempting the Congress and future budgets in this manner.

The third reason for the excessive growth of security assistance since 1981 is that the Congress has not exercised the restraint it formerly imposed on security assistance. Unless you have worked in the executive branch you may not realize the critical role such restraint plays in executive branch programming and budgeting. The pressures for more aid to grease the wheels of diplomacy, to encourage the sale of American arms abroad, to fill in pressing gaps in client states' foreign exchange resources, and to serve a host of other purposes, both worthy and unworthy, are incessant. From experience I can assure you that without some sense that a stern and skeptical Congress will challenge every dollar requested, OMB and the few allies it may find in resisting pressures for more security assistance will be overwhelmed.

As for specific areas in which security assistance should be cut, the grant military assistance program (MAP) would be first on my list. MAP, the oldest and for a long time the principal element of security assistance, was virtually eliminated by the end of the Carter Administration in a phased reduction as directed by the Congress. However, the program has since been resurrected, initially by the Congress as an offset to the high costs of FFB financing rather than providing more direct (on-budget) FMS credits. Now the program has gained a new lease on life as a means of providing weapons and equipment on a grant basis quite separate from the question of FMS terms. From four country programs in 1981, which was to be their last year, and a funding level of $170 million, MAP will grow to $775 million for 30 countries in 1984 if the Administration's supplemental is approved and to $930 million in 1985. If approved, this would be the highest level of grant MAP since 1966.

I urge the committee to cut back severely on MAP funding and not let it once again become a major element of the security assistance program. It may be necessary for countries engaged in active hostilities or temporarily in severe economic straits, but MAP can too easily become a crutch and take on a life of its own. I believe over the long run most countries should be expected to pay for their own defense, at least with only concessional loans. MAP encourages them to maintain larger forces than they can support over the long haul and skews their internal decision processes in favor of their military establishments. In many of these countries the principal threats are internal -- economic, social, political -- rather than of an external military nature. Their security from larger and potentially threatening neighbors cannot be provided by their own forces, and we do them no favor encouraging them to try to do so with MAP.

The proposed FMS financing program of $5.1 billion as the largest of the security assistance programs offers the best opportunities for cuts. However, I urge that any cuts be real and not be achieved by converting elements of the program to off-budget FFB financing. Here, I heartily endorse the Administration's proposal to put the entire FMS credit program on budget. This is the most significant reform put forward for security assistance programs in some years. I will not repeat all the reasons for my support today as they are amply set out in my Foreign Policy article.

I could not urge you more strongly to support this proposal to put the FMS financing program on a sound straight-forward basis where it will have to compete openly with the other foreign aid programs and where the dollars going into FMS can be seen by the public. If you reject this reform you will not be saving the public a nickel. Rather you will be hiding the true cost of FMS and perpetuating a system that encourages uncontrolled growth of security assistance and the accompaning dangerous increases in the debt burdens of the recipient countries.

The Administration's prime motivation in putting FMS financing on budget is to achieve greater flexibility in the interest rates charged than is possible for loans financed by the Federal Financing Bank. I support the request for more flexibility in FMS credit terms, but, like most good things, the availability of concessional credits must be limited. The Administration's professed policy is to base its determination of the need for concessional credits on economic grounds. But, unless there is a tight ceiling on such loans, there will be great pressure to allocate concessional credit on political grounds.

As for the amount of concessional financing to be provided, that, can only be determined on the basis of country-by-country analysis. The proposl for $500 million in addition to the $2.575 million of forgiven credits for Israel and Egypt seems reasonable. The amounts for Israel and Egypt, though somewhat reduced, actually represent increases over recent levels as the entire amount is to be forgiven -- in short, a grant. For the reasons set forth in my article, I believe the levels of security assistance to Israel and Egypt are excessive and that we have created two client states with no plan, no hope that their dependency can be ended in the foreseeable future.

The degree of concessionality to be offered in FMS credits is defined by the interest rate charged. The Administration proposes a single rate of 5 percent rather than a sliding rate that might go even lower. Given the current cost of money to the Treasury, 5 percent seems concessional enough and I would not go lower. I recommend that both the amount of concessional credit and the minimum interest rate be either prescribed in legislation or at least established in the legislative record.

The Congress should also consider limiting the repayment period for FMS financing. As a general rule countries should not be allowed to stretch out repayments for extended periods of 20 to 30 years that greatly exceed the life of the weapons and equipment bought with the loans. Such extended repayments encourage countries to make current purchases without adequate regard for the future debt service burdens they are building. As we are learning, there comes a day of reckoning for those who live on credit.

Finally, with regard to the Administration's security assistance proposals, I find it difficult to divine the logic of the relationship between grant MAP and concessional FMS financing. MAP grants are, of course, the ultimate in concessionality. Why, for example, should Portugal receive $70 million in grant MAP and $55 million in non-concessional FMS credit. Turkey would receive a mix of all three: $230 million MAP, $275 million in non-concessional FMS, and $250 million in concessional FMS, not to mention $175 million in ESF, also a mix of grants and loans. Otto Passman used to rail against the various foreign aid "spigots." Surely this administration has turned on all spigots.

CARLUCCI COMMISSION

Next, I should like to turn to the report of the Commission on Security and Economic Assistance -- the Carlucci Commission. On the whole, the Report is disappointingly vague and unconvincing. I recognize that the purpose of the exercise was essentially to bolster the public case for more foreign aid and that, accordingly, the Commission was not likely to dig very deeply into the questionable aspects of foreign aid.

The Commission's report is the quintessential American response to a problem. Instead of dealing with deep-seated deficiencies of the product, it is declared to be good, it is asserted that more should be bought, and the recommended solution is to gear up a public relations campaign and reorganize. I don't think this will sell. I certainly wouldn't buy it.

I believe the Administration and the members of the Congress who participated have missed an opportunity to take a fresh look at what we are doing with foreign aid. Even the Commission report admits it could not go into the specifics of country programs, in short into the essence of the problem. I don't mean to suggest that either the chairman or the many members of the Commission who are genuinely concerned about the direction of our foreign aid program were unaware of the limitations of their effort. The whole climate in which the Commission worked was not conducive to a critical appraisal. The staff was largely made up of advocates and lacked the breadth -- perhaps even the mandate -- to confront honest criticisms of our foreign aid. The report, consequently, has to be taken largely on faith.

The one major proposal of the Commission -- to create a Mutual Development and Security Administration -- is constructive in its intended purpose of bringing about greater integration of various foreign aid programs. I strongly support this objective, especially as I had some role in efforts in past administrations to bring about greater program integration. Unfortunately, based on that experience, I believe creation of the MDSA as conceived by the Commission would be a step in exactly the wrong direction.

The basic flaw in the proposed MDSA is that it would combine in one person, the director, the functions of (1) providing policy direction and budget control over the various components of mutual assistance (development assistance, Economic Support Fund, military assistance, PL-480, and transfers a multilaterial development banks) and (2) operational control over the economic aid programs (DA and ESF). If I understand the proposal correctly, MDSA would subsume the functions now assigned to AID and the essentially defunct IDCA, the Under Secretary of State for Security Assistance. Science and Technology (those functions related to security assistance), and the Politico-Military Bureau (for security assistance). I submit that this arrangement would not work and would be a step backward.

My assessment is based in part on what happened in the 1960s when the Director of AID had delegated to him the functions assigned by the Foreign Assistance Act to the Secretary of State to provide continuous policy direction and control over military assistance and to determine whether military aid should be provided to a particular country and the amount thereof. The AID Director could not be the principal spokesman for and manager of economic aid, on one hand, and the Secretary of State's man to ride herd on military aid, on the other. Because these roles were not compatible, the AID Director had to give primary attention to his economic aid role and effective policy direction over military aid passed to the Secretary of Defense during the period. It was only with the revocation of that delegation in 1968 and reassignment of the Secretary's responsibilitities for military aid to the Politico-Military Bureau that State began to carry out its central policy direction function for military aid effectively. I believe the proposed MDSA would founder on the same rock.

My belief that the proposed MDSA is a step in the wrong direction is also reinforced by experience with the integrated review of all foreign affairs programs conducted by the Secretary of State in the last year of the Carter Administration. This Foreign Affairs Budget Review (FABR) came about when OMB, with the President's blessing, requested that the Secretary of State review all the separate foreign affairs program budget requests and provide to the President, through OMB, his recommendations as to how these disparate programs should be funded within an overall aggregate foreign affairs budget ceiling. The Secretary's recommendations were to be submitted with decision packages -- program increments -- placed in priority order above and below the aggregate ceiling. The individual agency and program budget requests were not cut off by this extra review by the Secretary of State; they were transmitted to OMB and reviewed and defended there in the normal manner. However, the final reviews and appeals were conducted within the FABR framework and the Secretary's recommendations were given great weight.

Several aspects of the FABR process are instructive. First, the approach taken might be described as "trickle down." The Secretary was given both responsibility and requisite authority to conduct the review by the President and OBM with the cooperation of the NSC staff. The consequences of these steps were then allowed to flow down through the community. No new agencies or large staffs were required. The small FABR staff created in

State and reporting to the Deputy Secretary consisted of four professionals, one of them available only part-time.

The process allowed for full play by the advocates of the various agencies and by the bureaus of State. But because the FABR staff worked for the Deputy Secretary, who gave them his firm support, they could not be bypassed within State and with OMB, NSC, and the President in firm support, there was no way to get around the Secretary, although agency head appeals were allowed as is normal.

The most important aspect of the FABR exercise was that it involved all the responsible policy officials -- the state country directors, heads of state bureaus, other agency heads, the undersecretaries of state, and finally the deputy and the secretary. Most fundamentally, the integrated review recognized that in the final analysis all of these programs -- economic aid, military aid, ICA (USIA), Export-Import Bank, State's own budget, contributions to international organizations, Peace Corps -- serve political, that is, foreign policy purposes. The underlying premise was that the official short of the President best qualified to establish priorities among these programs is the Secretary of State.

I do not believe a detailed description of the FABR exercise is necessary here but would be glad to submit a more comprehensive report if the committee would like to know more about it.

Now, you may ask, just what does the 1980 integrated budget review have to do with the Carlucci Commission's recommendation to create a new Mutual Development and Security Administration. The Commission's concept proceeds from the premise that to achieve better integration of the several foreign aid programs the integration function should be performed by a senior official who heads a new semi-autonomous agency. This is the exact opposite of the premise of the FABR exercise that the review must be performed by the senior officials who are responsible for the conduct of our foreign policy. I believe the head of MDSA would soon find himself isolated much as the head of IDCA did.

Behind the MDSA and IDCA concepts probably lies the notion that if these programs can be isolated from the corrupting influence of political considerations they can be purified, integrated, and rationalized. But, if these programs are ultimately political in their purposes, should not the officials charged with directing foreign policy bear the principal responsibility for ensuring that the several foreign affairs programs are properly integrated in the service of the foreign policy? I certainly would not claim that State officials have adequately met these responsibilities over the years. But moving the responsibility away from them is not going to make things better; it will only create more bureaucratic conflict and delay the time when State faces up to its responsibilities.

In sum, with respect to the commission's organizational recommendation, I would continue the Agency for International Development as the agency responsible for operational control over the economic assistance programs (development and economic support) with its head expected to be a strong advocate for development aid as in the past. The International Development Coordination Agency (IDCA) should be eliminated as recommended by the Commission. Consideration should be given to more closely integrating Washington level AID staffs with the State Bureaus. Maybe there is no need for a separate AID, but the advantages and disadvantages of complete integration with State should be more thoroughly analyzed.

The function of providing policy direction and budgetary control over security assistance must continue to be performed by a senior State official who interacts closely with both AID, as the operating agency for economic supporting assistance, and Defense, as the operating agency for military aid. I question that it is advisable for the same official who performs these functions for State to also have responsibility for integrating and providing overall policy direction to both development and security assistance. This responsibility probably should reside in the Deputy Secretary who is also in the best position to integrate the foreign aid programs with the other foreign affairs programs along the lines of the FABR exercise. However, further study of these options is required.

I do support the Commission's call for greater attention to the longer run aspects of foreign aid, for a multi-year planning framework, and for an integrated country approach. However, these desirable characteristics of program planning and budgeting have long been advocated and are not likely to be achieved by mere organizational changes. A deeper study of the difficulties and the reasons for past failures to remedy these problems needs to be undertaken before we can adopt specific reforms with confidence.

If the Commission's report does not offer any ready answers to our foreign aid problems, it at least may help by identifying those problems and thus serve to provide an agenda for further study by both the executive branch and the Congress. And the coming budget crunch under the impact of $200 billion annual deficits may provide the impetus to some serious reform. Often we can only overcome the inertia of old ways when disaster threatens.

U.S. Security Assistance:

DEBTS & DEPENDENCY

by Harry J. Shaw

No major program—domestic, foreign, or even defense—has been more favored in Reagan administration budgets than security assistance. The administration's proposed $9.2 billion 1984 program of foreign military sales (FMS) credits, military aid as grants, and security-related economic support exceeds the fiscal 1981 program by 70 per cent. This large boost in security-related foreign aid contrasts with no increase in the $3.5 billion bilateral economic development assistance program, a give-away program not favored by Reagan's conservative supporters.

Although touted as essential to the security of U.S. interests abroad, the security assistance program may endanger these interests more than likely military threats to the recipient countries. In a world of economic peril, security assistance offers expensive arms that may add more to that peril than they do to military security. For the program adds to the troublesome debt burdens of some recipients, creates a group of client states indefinitely dependent upon U.S. assistance, and encourages unrealistic expectations for future levels of aid and relief from debts. Moreover, U.S. credit financing and grant aid encourage recipients to acquire arms and equipment and to maintain military establishments they cannot expect to support unaided.

U.S. arms obtained in this manner may seem cheap to the buyers because of the extended repayment terms, and the costs may seem minimal to the administration and Congress because much of the financing is not reflected in the federal budget. Yet the true costs of this assistance eventually have to be paid. Already several security assistance recipients have defaulted on payments; Turkey alone has had over $400 million in FMS loans rescheduled. In the United States, credits not financed through the federal budget—so-called off-budget items—add to the true federal deficit and to federal borrowing, thus undercutting reductions in interest rates that are essential to U.S. economic recovery.

These high levels of security assistance, moreover, carry serious political risks since they very likely misrepresent what Congress and the public will support over the long haul. Failure to meet the unrealistic expectations of recipient countries will create serious problems in U.S. relations with these countries as well as contribute to their domestic instability. As local regimes are forced to substitute limited indigenous resources for lost aid and to curtail programs for politically influential military establishments, they will quickly blame the United States even if the folly is largely of their own making. The United States must learn the lesson—once again—that restraint in raising expectations for foreign aid pays off in the long run whatever the short-run costs.

Despite these costs and risks the Reagan administration continues to press annually for higher levels of security assistance. In the face of the most severe budget bind ever—and notwithstanding a congressional reduction of $700 million in the proposed $8.7 billion 1983 security assistance program—the administration has requested $9.2 billion for 1984.

It is extremely unlikely that military threats have increased so dramatically since the Carter administration as to justify such astounding increases. Under the Reagan proposals, for example, FMS financing for Egypt would rise to $1.3 billion in 1984, a 136 per cent increase over the $550 million provided in 1981. Military assistance to Morocco would increase 200 per cent, to Sudan 220 per cent, to Spain 230 per cent, and to Tunisia 800 per cent. Turkey, which received $450 million in FMS financing, grant military aid, and economic support in 1981, would receive over $930 million. Israel's share would remain $2.5 billion, 27 per cent of the worldwide total.

While the Reagan administration's ideological bias is an appropriate starting point for analyzing these extraordinary increases in security assistance, other factors enabled the administration to translate that bias into billions of dollars in new arms aid and economic support. The availability of guaranteed loans not included in the federal budget, the breakdown or discarding of earlier program review processes, emphasis on short-run political and military advantages at the expense of long-run costs, the presence of security assistance advocates in key administration positions, the weakness of the Office of Management and Budget (OMB) as a restraining influence, and the pusillanimity of Congress, all contributed to the outcome.

If nothing else, the budget bind exemplified by the estimated $189 billion deficit in the administration's 1984 budget will require Con-

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gress to reassess U.S. national security programs—including security assistance—and to find a balance between resources and the requirements imposed by changing threats to U.S. interests abroad. At a time of critical international economic uncertainty far more attention must be given to threats to the economies of U.S. allies and friends abroad.

When Congress begins its reassessment of the Reagan security assistance proposals, it will need to sift through a variety of programs and related agencies:

- FMS financing, the largest part of the security assistance program, provides direct and guaranteed loans to foreign governments purchasing U.S. arms, equipment, and services. The direct loans, with interest rates as low as 3 per cent, are financed by appropriated funds included in the budget. In recent years direct loans with cancelled repayment have been used as substitutes for outright grants of military aid.

Guaranteed loans, the most important component of FMS assistance, are financed by the Federal Financing Bank (FFB), an off-budget agency managed by the Department of the Treasury. FFB loans for foreign military sales are guaranteed by the Department of Defense and are financed with funds that the Treasury borrows from the financial markets. There is less flexibility in interest rates for FFB loans than for direct loans. U.S. law requires that the interest rate be equivalent to the cost of money to the U.S. government—that is, the interest rate the government pays at the time the funds are borrowed. Loan repayment, however, is often not required for 30 years, including a 10-year grace period on repayment of principal.

- Grant military assistance, long the primary means of financing arms for foreign countries, was reduced to an account for administrative costs by the Carter administration. Congress, which uses grant military aid funds matched with FFB-guaranteed loans as a substitute for direct FMS loans, has since revived the program.
- The Economic Support Fund (ESF) provides grants and loans to countries that do not meet criteria for development assistance but warrant assistance because of special economic, political, or security conditions. ESF assistance is often used to support a country's balance of payments and to offset payments due on FMS loans.
- Grant military training assistance finances the training of foreign military personnel in service schools in the United States, pays for U.S. mobile training teams abroad, and provides specialized training aids and equipment for foreign military schools. Also, peacekeeping operations is a relatively small program through which the United States contributes to the financing of peace-keeping forces such as the U.N. forces in Cyprus and the multinational force and observers in the Sinai Peninsula.

Bureaucratic Biases

The Reagan administration's ideological bent leads it to see threats to U.S. interests largely in military terms and predisposes it to respond by increasing military strength at home and abroad. It has justified increased security assistance by referring vaguely to the Soviet threat and employing rhetoric designed to hide security assistance expenditures under the defense umbrella. The administration's bias against economic development aid stems from its overriding concern for military threats and its belief that development aid is less effective than security aid in achieving U.S. objectives. It considers the resources required for economic development as too large for U.S. development aid to have any substantial economic or political impact. Security assistance, by contrast, can be concentrated in sufficient amounts to help develop the military capabilities of a few key countries. The administration believes that strong pro-U.S. local forces can uniquely serve American interests. It feels security assistance is especially suitable as a quid pro quo for military base rights abroad.

What the Reagan administration has not considered, however, is that development aid, too, can be concentrated where it counts rather than scattered about the world for short-run political purposes. Also, foreign forces supported by U.S. security assistance may act in ways inimical to U.S. interests—as recent events in Lebanon so dramatically illustrate. The administration's dogmatic approach to foreign aid has prevailed in part because skeptics in the U.S. government—who might have questioned the security assistance bias of the administration—have until now had little chance to state their case. The constellation of security assistance advocates in key positions in the State Department, at the Pentagon, and in the White House have made the traditionally countervailing pressures from OMB and the Agency for International Development (AID) ineffective.

Early in the administration OMB Director David Stockman, after an initial confrontation with former Secretary of State Alexander Haig, Jr. over security assistance, concentrated on cutting domestic programs—leaving security assistance in the same untouchable category as the defense budget. Stockman must now recognize that he made an irreversible mistake. Once an administration submits its initial budget proposals and defends them before the Congress and the people, it becomes locked into the priorities reflected by those proposals.

OMB's most critical problem in the Reagan administration has been its inability to turn to the president as a final arbiter on security assistance issues. Traditionally, OMB's clout has been a function of its ability to take issues to the president, who often sides with OMB against program increases. The tradition has not held with President Reagan regarding security assistance. Moreover, key political appointees in OMB have been part of a network of pro-defense, pro-security assistance conservatives unlikely to challenge the State and Defense departments and the National Security Council (NSC) staff on security assistance issues.

AID has been in an even weaker position than OMB. Operating initially under the policy direction of Haig—who favored security assistance—and of the undersecretary for security assistance, AID has had little choice but to accept the shift in priorities to security assistance.

FFB-financed loans . . . are not reflected in the budget deficits and are not subject to tough scrutiny within the executive branch or Congress.

The breakdown of certain key interagency processes that previously abated pressures for increased security assistance has reinforced the bureaucratic biases. The Reagan administration, for example, has not adopted the "future commitments" approval procedure of the Ford and Carter administrations—versions of which date back to the Truman administration. The essential feature of these procedures was that no U.S. government official could make a formal or informal commitment to another government to provide financial aid of any kind—beyond that provided for in approved budgets—without presidential approval obtained through the budget director. In the absence of such a constraint officials can easily make promises that, however qualified, commit current and future administrations to assistance. Because of resulting expectations and the political consequences of failing to meet these expectations, even Congress finds it difficult to reject such executive commitments.

The Reagan administration has also scrapped two other procedures affecting levels of security assistance: first, the annual interagency analysis of the Middle East military balance and its security assistance requirements and second, the integrated review, under State Department leadership, of all foreign affairs budgets. The latter, an innovation of the Carter administration in its last year, forced the State Department to assess the relative importance of all foreign affairs programs—including the department's own budget—given a certain budget ceiling. The Reagan administration has not set budget ceilings low enough to force tradeoffs among disparate foreign affairs programs nor has it given the State Department the authority to conduct an integrated review.

The availability of off-budget FMS financing has been the most important reason for the administration's bias in favor of security assistance and for the acquiescence of the 97th Congress. Of the $5.4 billion in FMS aid proposed for fiscal year 1984, $4.4 billion would be financed by FFB loans. Outlays for these off-budget loans are not reflected in federal budget totals commonly debated in Congress. FFB-financed loans, therefore, are not reflected in the budget deficits and are not subject to tough scrutiny within the executive branch or Congress.

The Treasury must nevertheless borrow a dollar of FFB financing for an FMS loan in the same manner as a dollar for a direct FMS loan. Thus FFB-financed loans add to the burden that federal borrowing for budgeted programs places on the economy—particularly in the form of pressures on interest rates.

The use of off-budget federal financing was not intended when the authority to guarantee loans was written into the 1968 Foreign Military Sales Act. It was assumed at that time that FMS assistance would be largely financed by direct government loans appropriated by Congress, although the act included a provision allowing the Defense Department to guarantee loans financed by private financial institutions. The Budget Bureau, hoping to reduce claims on the federal budget, immediately encouraged the Defense and Treasury departments to seek private financing. This early effort succeeded only partially as most larger banks involved in international financing feared the potential political repercussions of financing arms sales. These fears were apparently allayed with the creation of the FFB and the revision of the Foreign Military Sales Act in 1974 to allow the FFB to finance credit sales. Neither the executive branch nor Congress then realized, however, that FFB financing, beyond the reach of normal budget controls, would become the dominant form of FMS assistance.

The availability of unappropriated FMS financing insulates this major component of foreign aid from competition for scarce resources that appropriated foreign and domestic programs must undergo in the executive branch and Congress. The result is to skew decision making in favor of financing that falls outside the budget, thereby encouraging the use of military sales as an instrument of foreign policy rather than other—perhaps more appropriate—forms of assistance that must be budgeted. That Congress is addicted to this off-budget drug is evident from security assistance hearings replete with favorable references to FMS-guaranteed loans that do not affect budget outlays.

The executive branch is no less dependent on unappropriated FMS financing. While OMB officials credit Stockman with an almost messianic commitment to ending such financing, he has had little success so far. OMB's leverage against program increases is often dependent upon the effects those increases have on immediate outlays. If, as in the case of FMS-guaranteed loans, the outlays are not part of the budget, OMB finds it difficult to reject proposed increases. In addition, OMB's periodic ratchet exercises—in which the staff identifies potential program cuts needed to limit outlays—exclude programs, such as FMS-guaranteed loans, that are not included in the budget.

The Failure of Congress

It is easier to understand why the Reagan administration has proposed a 70 per cent increase in security assistance than to explain the pusillanimous response of Congress. The explanation probably lies in the same acquiescence that led the 97th Congress to give away critical elements of the tax base and to go along with defense excesses. The change in the roles of the two houses certainly contributed to the new congressional attitude. For at least 25 years the Senate Foreign Relations Committee, under Democratic leadership, presented the strongest challenges to executive branch military aid programs. The House Foreign Affairs Committee, though also under Democratic leadership, was generally more sympathetic to military aid. With control of the Senate moving in 1981 to Republicans who felt obligated to support Reagan, the responsibility for scrutinizing security assistance passed to the House committee. Unfortunately, with the exception of the Subcommittee on Inter-American Affairs—which conducted hearings on security assistance proposals for Central America and the Caribbean Basin—the House Foreign Affairs Committee has not seriously challenged the administration's military aid programs.

Nowhere is congressional weakness more evident than in security assistance proposals for Israel. Even after the Lebanon invasion, Congress in the lame-duck session sought a $300 million increase in the administration's proposed $2.5 billion security assistance program for Israel. Strong but confused administration opposition helped to defeat this effort—but only at the cost of converting $250 million in loans to grants.

Presumably Congress behaves in this fashion because it believes the American people want it to. Public support for Israel, however, derives in part from a mistaken belief that Israel remains a beleaguered state surrounded by militarily superior and hostile Arab states. That myth will continue until Congress—through hard-hitting hearings on security assistance to Israel—educates the public. Surely, funds for Israel, which constitute over one-quarter of all U.S. security assistance funds, deserve such public review.

American security assistance also has undesirable effects on its recipients. Countries purchasing American arms on credit are accumulating enormous debts: The 1983 budget projected $12 billion in outstanding loan guarantees at the beginning of fiscal 1983, growing to $15.5 billion by the end of the year. If new guaranteed loans and direct loans requiring repayment continue in 1984 at the proposed $4.4 billion level, total outstanding loans will soon exceed $20 billion. Assuming a conservative average interest rate of 10 per cent, annual interest payments alone would total $2 billion. This debt-service burden will increase dramatically as grace periods for payments on principal expire.

The worldwide economic recession—threatening bankruptcy for many developing countries—and growing instability in the international banking system require the United States to resist adding to the debt of economically troubled countries. Several countries with the most severe debt-service burdens in the world are recipients of FMS credits. Debt payments in 1983 are estimated to be 126 per cent of exports for Israel; 79 per cent each for the Philippines and Peru; 46 per cent for Egypt; and 49 per cent for South Korea.

America's extraordinary financial support for Israel's military forces bears little relation to any reasonable assessment of Israel's military needs.

The Reagan administration, nevertheless, continues to sell arms on credit—offering extended grace periods that delay payments on principal for as long as 10 years and final payment an additional 20 years. At today's high interest rates, interest charges alone may exceed the original face value of the loan before the grace period expires—as noted recently by the General Accounting Office in a report on military sales to Egypt. The equipment purchased under such agreements will have worn out or become obsolete by the time the loan is finally paid off at the end of 10, 20, or 30 years. If world inflation abates during the grace period, the recipient countries will be forced to reimburse the United States at high real interest rates. Countries struggling to recover from a worldwide recession will find such reimbursement extremely difficult.

Discussions with executive branch officials and perusal of congressional hearing and committee reports indicate that the U.S. government gives little thought to the growing debt burdens of countries receiving U.S. security assistance. During the State Department's annual review of the proposed security assistance budget, for example, policy-level officials did not consider any comprehensive debt projections for the key recipient countries. Moreover, projected repayment schedules provided by the State Department to Congress in congressional presentation documents are incomplete and misleading.

More Growing Debts

The U.S. security assistance program for Turkey clearly illustrates these failings. The fiscal 1983 congressional presentation document estimated that Turkey's payments on principal and interest due on FMS loans will total $135 million in fiscal year 1983—growing to $259 million by 1986. But these estimates only include payments due on loan agreements signed before October 1, 1981. They do not include payments that will be due on loans included in the $343 million in new 1982 assistance, in the $465 million in 1983 assistance, the $525 million in 1984 assistance, and in the undetermined amounts of assistance in 1985 and 1986. If the effects of new loans are taken into account, Turkey's total FMS repayments will very likely reach $320 million in 1986. As grace periods for payments on principal expire, Turkey's annual payments could exceed $500 million by the end of the decade if current levels of FMS financing continue.

Turkey's plight is even more dramatically illustrated by its dismal repayment record. As of September 30, 1981, Turkey had repaid only $65 million of the $1.2 billion principal on FMS loans extended up to that date. The balance—increased by new annual loans of about $500 million a year—and interest charges will place large claims against Turkey's future dollar earnings.

Turkey has long maintained military forces beyond its financial means because of NATO force goals and the country's continuing conflict with Greece over Cyprus. In the past, however, U.S. civilian officials and military planners have questioned the wisdom of maintaining over 500,000 men in the Turkish armed forces. Until recently, realistic appraisals of the military threat to Turkey—and of Turkey's likely role in hostilities not involving a Warsaw Pact attack on it—have confirmed U.S. beliefs that Turkish forces should be reduced. U.S. officials know that the costs of equipping Turkey's forces with modern arms exceed the most optimistic projections of foreign military assistance and available Turkish resources.

Turkish governments, however, have declined to reduce manpower levels—determined more by the socioeconomic needs for military conscription than by military need—and, instead, have pushed for more military assistance from the United States, West Germany, and other NATO allies. When outside assistance has not met Turkey's needs, the Turkish military have learned to live with continued obsolescence. This situation, not welcomed by U.S. defense planners, was virtually unchangeable while the Cyprus conflict remained unresolved and the Greek lobby blocked congressional efforts to increase military aid to Turkey. In addition, the Turkish economy was in such dire straits during most of the Carter administration that American attention and resources were almost exclusively concentrated on the Turkish economy.

In the last year of the Carter administration, however, the Soviet invasion of Afghanistan and events in Iran focused new military interest on Turkey. Its position on the flank of a hypothetical Soviet move toward Persian Gulf oil fields, strategic planners discovered, gave new importance to both Turkish armed forces and U.S. access to bases in Turkey. Thus during the Reagan administration requests for military aid to Turkey have increased over the $250 million level in 1981 to $465 million in 1983 and $755 million in 1984. This new military emphasis on Turkey, however, is ill-fated.

The Turks are unlikely to become involved—by contributing troops or by making their territory accessible to U.S. forces—in any Middle East war that does not directly threaten Turkish territory or involve the NATO alliance. Attempts to build up Turkey's military capabilities for contingencies in the Middle East not involving Turkey only delay the reconciliation of Turkey's military forces with that country's economic capacity, increase pressures for greater arms sales and financing, and burden Turkey with debts it cannot realistically expect to repay.

While Turkey is still in an early stage of dependence upon U.S. security assistance, Israel is a mature dependent—for all practical purposes permanently on the dole. The United States has spent over $15 billion to equip Israel with the latest U.S. weapons. Although only $6 billion of the total has been in the form of grants, Israel's repayments on the balance have been offset by grants in economic aid that exceed the value of the repayments. Effectively, therefore, Israel has paid nothing for its $15 billion in FMS purchases.

Senator Alan Cranston (D.-California), one of Israel's strongest supporters in the Senate, last year urged Congress to require that the annual level of U.S. economic assistance to Israel be sufficient to offset Israel's payments on military sales loans. Although the Cranston amendment did not become law—no authorization bill for foreign aid was passed by either house in 1982—it set the stage for a battle between Congress and the administration over aid levels to Israel. Israel clearly benefited from the battle: $250 million of the administration's proposed $1.2 billion in FMS credits were converted to grants—in the form of forgiven direct loans—raising total grants to $750 million.

Egypt is following Israel's route to endless and costly dependence [on U.S. security assistance].

America's extraordinary financial support for Israel's military forces bears little relation to any reasonable assessment of Israel's military needs. Before the 1973 October war, Israel received just $300 million annually in FMS credit financing. Following the war Israel received $2.2 billion to offset losses and to pay for a substantial build-up of military capabilities needed to correct weaknesses exposed during the war. During the following four years regular FMS financing was set at $1.0 billion annually despite constant Israeli pressures for increases.

The level of military aid for Israel was based on an interagency analysis of the Middle East military balance and of Israel's economic situation. These annual reviews—directed by National Security Decision Memorandum 315—concluded that Israel's military forces could defeat any feasible combination of Arab forces. On strictly analytical grounds, even $1.0 billion was deemed excessive; a reduction below that level, however, was considered politically impossible. President Carter breached the interagency consensus in 1981 when—responding to pressures from the Israeli lobby—he raised the 1981 request to $1.2 billion. Congress eventually appropriated $1.4 billion, which became the new base level for future appropriations. The Reagan administration has requested $1.7 billion for 1983—a level not based on a review of the Middle East military balance but rather reflecting the administration's perception of Israel as a strategic partner.

While Israel depended heavily for years on U.S. military and economic aid—which approaches $2.5 billion a year—the United States has not converted this dependence into effective leverage on Israeli actions. This is partially attributable to Israel's ability to order military equipment on a cash-flow rather than full-funding basis. This means Israel can place new FMS orders before Congress has appropriated credit financing; under a cash-flow arrangement Israel only needs funds to cover current payments as they come due. As a result of this system, Israel generally covers payments on past orders with credit financing appropriated for the current year. New orders are placed on the assumption that future FMS financing will be provided to cover the payments. The U.S. government is effectively committed to cover the future payments since a cut in financing would leave American manufacturers with unpaid orders. This cash-flow process has largely eliminated American control of Israeli purchases except for high visibility items—for example, the F-16—requiring approval of the president and Congress.

The generous level of U.S. military aid and annual grants of $785 million in economic aid have also indirectly helped finance Israel's settlements on the West Bank. U.S. aid has relieved Israel of a major part of its defense burden—which in 1980 cost one-quarter of Israel's gross national product—and consequently has made the costs of the settlements bearable to the Israeli government.

Egypt is following Israel's route to endless and costly dependence. The Camp David agreement could have led to retrenchment in Israeli and Egyptian forces, but Israel used leverage in the negotiations to obtain new infusions of U.S. arms while the United States increased military aid to Egypt to convert Egyptian forces from Soviet to American weapons. Military aid to Egypt has increased from $550 million in 1981 to $1.3 billion in the 1983 and 1984 budgets—second only to Israel's $1.7 billion. Also following the Israeli pattern, some $400 million of Egypt's FMS financing is in the form of grants—direct credit for which repayment will be forgiven—and military orders are made on a cash-flow basis. By 1985 interest payments alone on FMS loans will amount to an estimated $450 million a year, contributing to Egypt's already severe debt-service burden.

The level of military aid to Spain is also troublesome. The United States recently agreed to provide $400 million annually in FMS-guaranteed loans to Spain as a quid pro quo for a five-year extension of the U.S.-Spanish military base agreement. In contrast, the previous agreement—concluded before Spain joined NATO—cost only $120 million in annual FMS financing. This extraordinary increase in military aid to a NATO ally—which hardly needs military aid on economic grounds—can be attributed in part to American failure to bargain for a better deal. The proposed financing level was actually included in the 1983 budget before negotiations on the base agreement were concluded. In addition, the $2.0 billion offer was almost certainly linked to U.S. desires to sell the F-18 to Spain and, more critically, to the availability of FFB-financed loans that would not show up in the budget.

The Spanish base agreement may cost more than $2.0 billion in the long term since it sets a precedent for base negotiations with the Philippines. After the Spanish agreement, Philippine President Ferdinand Marcos will expect more than the $100 million annually provided for in the last Philippine base agreement.

A Painful Adjustment

Nothing would do more to bring rationality and a sense of proportion to the security assistance program than to include all FMS financing in the budget. Security assistance would then need to compete for funds with other foreign affairs programs as well as with defense and domestic programs. Such a move would force the executive branch and Congress to face the real costs of the program and to reassess its value.

If all security assistance funding were included in the federal budget, the amount of assistance would most certainly decrease as the more egregious elements were eliminated. With less credit available, some purchasers would either have to pay cash or forgo buying particular items from the United States. Cash payments would restrain countries from acquiring expensive arms and would force them to re-examine the true costs of their defense programs.

There is the risk, of course, that the U.S. share of the international arms market would be reduced if other suppliers were more willing to offer credit. But given U.S. political, military, and economic relationships with the purchasing countries and other Western suppliers, this problem should be manageable. Faced with strong pressures to continue subsidizing the American arms industry, U.S. political leaders would also find major reductions in FMS credit financing very difficult domestically. While Americans should be under no illusion that a major reduction in this financing would be painless, they should recognize that the consequences of the present course are even more painful.

Off-budget FMS-guaranteed loans could be terminated either by requiring that FFB funds be appropriated by Congress or by enacting a provision in foreign aid legislation prohibiting the use of FFB financing for military sales.

To be realistic, however, the Reagan administration is not likely to eliminate unappropriated financing for its favorite foreign aid program. Strong supporters of security assistance on the conservative right—together with the military and the arms lobby—would vigorously resist such an effort. Although it approved a partial conversion to direct loans, the Carter administration—even with its public commitment to restraining arms sales and its professed interest in more honest budgeting—proved unwilling to accept the additional budget outlays caused by converting all FMS-guaranteed loans to direct loans. The Carter experience suggests that nothing is gained by continuing a mix of on- and off-budget financing. When the latter is available the temptation to use it proves irresistible for both the executive branch and Congress.

Congress is also unlikely to terminate FMS-guaranteed loans since many members see them as a convenient means to fund security assistance programs without adding to the budget deficit. Senator Charles Percy (R.-Illinois), chairman of the Senate Foreign Relations Committee, however, has proposed legislation to include the FFB in the federal budget. Greater congressional and public awareness that Treasury borrowing for FFB-financed loans has the same effect on the economy as other federal borrowing will improve the prospects for terminating those loans.

Nothing would do more to bring rationality and a sense of proportion to the security assistance program than to include all FMS financing in the budget.

In addition to resolving the question of FMS financing, U.S. policy makers need to focus greater attention on the long-range consequences of FMS financing for recipient countries—including the prospects for repayment. The economic viability and political stability of countries buying U.S. arms may prove as critical to their security as their military capabilities. The administration's interagency review of security assistance programs should include an analysis of the economy of each recipient country, including the effects of FMS financing on debt burdens. Congress should then require the administration to include the country economic analyses in congressional presentation documents so that Congress can better challenge security assistance programs.

The administration and Congress must also address the issue of impoverished countries clearly unable to pay cash for military purchases or bear the burden of high-interest guaranteed loans. During the Carter administration and the early Reagan administration, relief was offered by converting guaranteed loans to lower interest-bearing direct loans. Recently, however, there have been efforts to resurrect the grant military aid program (MAP). The administration's 1984 budget request for $706 million in grant MAP points to a major revival of that program.

Grant MAP was ended for good reasons. It encouraged countries to build military forces they could never expect to maintain with their domestic resources, and it distorted internal decisions in favor of military forces. In the 1950s MAP was an appropriate instrument for rearming America's West European allies and Japan—and later, Korea, Taiwan, Thailand, Turkey, and other countries that were not permanently dependent upon grant aid. MAP came to be regarded, however, as an expression of political favor rather than economic need.

Carter's firm decision to end MAP in 1981 was the culmination of a long struggle that began with former Secretary of Defense Robert McNamara's 1965 reappraisal of the program. To reverse that decision would reopen the door to costly mischief in the name of national security. It would be preferable to rely on concessional direct loans for which repayment can be forgiven as has been done for Israel and Egypt. Such loans—carrying temporary rather than long-term obligations—are justified for the most deserving countries because of their serious economic troubles.

Cash-flow funding of military sales must also be terminated except when specifically authorized by Congress. Policy makers must recognize the full costs of proposed programs by subjecting them to the regular authorization and appropriation process before the programs are approved.

With potential budget deficits for 1988 approaching $300 billion and with domestic social programs being slashed, the American taxpayer will not tolerate financing arms for foreign countries unless there is a demonstrated and compelling need. Moreover, greater public understanding of the effects of federal borrowing on interest rates and the threat high interest rates pose to economic recovery will jeopardize continuation of off-budget financing. In short, the security assistance program faces a troubled future.

Even with the suggested reforms—designed to adjust the security assistance program to the exigencies of an era of budget austerity—significant problems remain. Without a more fundamental reappraisal of U.S. interests abroad, the threats to those interests, and the proper role of security assistance both as an instrument of diplomacy and as an adjunct of U.S. defense programs, the United States cannot expect to make the best use of its resources.

Inescapably, that reappraisal must encompass justifications for U.S. security assistance to Israel since it consumes almost one-third of the program. Any review of assistance to Israel will raise issues of unusual political sensitivity. The administration and Congress, however, cannot indefinitely avoid these issues without perpetuating a costly dependency and jeopardizing U.S. support for countries with more urgent security needs. Accordingly, the administration would be well advised to resume the practice of an annual comprehensive review of the Middle East military balance along the lines of National Security Decision Memorandum 315.

Finally, the reappraisal of U.S. interests abroad must include a broader reassessment of foreign policy and defense strategy. The government should no longer throw money at problems. Prudence and national interest suggest that U.S. programs for security assistance should not be exempt from more careful budget and policy scrutiny.

PREPARED STATEMENT OF GEN. WILLIAM A. KNOWLTON

U.S. ARMY (RETIRED)

My name is William A. Knowlton; in 1980 I retired as General, United States Army. I have asked to present this statement today in order that it be entered in the record, since my request was too late for personal appearance on a crowded agenda. I ask this for two reasons: I have long been associated with NATO and with its defense problems, and I have been distressed at the distortions made before Congressional Committees by groups attacking Turkey, apparently in extension of foreign policies of other countries. Obviously, I support the request by the Executive Branch for assistance to Turkey and its armed forces.

The strategic importance of Turkey to NATO and to western defense lies in three elements: its geography, history and people. Turkey is the land bridge between Europe and the Middle East. It is large; transposed onto a map of Western Europe it would stretch from Berlin to Dublin, Ireland. Those distances complicate its defense tasks, as I shall explain later. In its history, Turkey has always had to fight those who would dismember it. Parts of Eastern Turkey have changed hands a dozen times as Russian forces have seized areas which Turkey has later retaken. The Greek invasion of the early 1920's almost reached Ankara before Ataturk's forces won a key battle and forced the invaders back off Turkish soil at Izmir. And the Turkish people are very independent by nature, sharing a love of freedom with the other NATO nations. Their legendary battlefield bravery was demonstrated repeatedly in Korea at the side of American forces.

I was one of the first Americans on General Eisenhower's staff in the early days of SHAPE. It was apparent to us that NATO's Mediterranean defense was an impossible task if NATO stopped at the edge of Italy. The entrance of Turkey and Greece into NATO helped complete the NATO arc, an arc anchored at each end by the only two NATO countries to share borders with the Soviet Union; Norway and Turkey. In those early days of SHAPE, emphasis was placed on the Turkish straits, which control the entrance and exit to and from the Black Sea. Since many Soviet ship-building and repair facilities are along the borders of the Black Sea and since the Soviet Mediterranean fleet has become such an ominous threat to the southern flank of NATO, those straits from the beginning have been one of NATO's three key points of special mention -- points whose loss would jeopardize the whole effort.

The city of Istanbul, the port through which most imports enter the country, straddles the straits. Less than ten percent of Turkey lies on the western side of the straits in Turkish Thrace. The distance for a Warsaw Pact attacker coming out of Bulgaria and racing toward Istanbul is very short. Turkey and Greece share a border with Bulgaria, and they used to share the defense task before Greece withdrew from the NATO integrated military structure. One of Turkey's three numbered Armies has for years been entrusted with the task of defending Turkish soil on this shallow battlefield. That Army is committed to NATO plans and is in precisely the positions called for by those plans. I mention this because some Congressional witnesses have cited this Army as being directed against Greece. It is not. It is in its NATO positions dealing with its NATO task of defending one of NATO's three most important geographical points. The force has not changed in nature or mission over the years. The withdrawal of Greece from the integrated military structure complicated its defense task because its flank is now vulnerable. One can only hope that the cooperation which marked earlier defensive exercises will continue in the event of hostilities; when both countries' forces came under NATO command at Izmir, cooperative defensive planning was easier and more certain.

Over 800 miles to the east, across rugged terrain with limited roads, lies the Soviet border. Another Turkish Army, the Third, is charged with the defense against invasion in this often contested area. Because of the distances involved, mutual reinforcement from the First Army area is not feasible. The Third Army must be able to operate independently. It must be large, it must be armored, and it must be mobile. Not only do the Soviet divisions of the Transcaucasus outnumber the Turkish forces, but the Soviet divisions of the Transcausasus Military District were among the first to benefit from modernization and increased readiness following the Soviet invasion of Afghanistan. Turkish forces in this area badly need armor upgrading and air mobility, as well as increased radar and surveillance means. Turkey's membership in the now defunct CENTO brought needed infrastructure improvements, and NATO infrastructure programs have enabled more recent upgrade of communications facilities. But the Turkish forces themselves face a formidable modernization task.

Continuing around clockwise, one finds the Turkish borders with Iran, Iraq and Syria. Historically the Second Army -- the Army entrusted with defense of this long and narrow border area -- has been the smallest of the three armies and the last to get modernization and mobility. The CENTO relationship with Iran and the relatively stable relationships with Iraq and Syria made this possible. And yet it is worth remembering that even this fairly calm area did occasionally cause concern. In 1957, when the Soviet Union started arming Syria heavily, Turkey bolstered its forces along the border. This led to a Khrushchev threat in October 1957 (through an interview with James Reston of the New York Times) when he said that if war broke out, Turkey would not last one day. The State Department replied immediately and firmly, reaffirming the NATO commitment to Turkey's defense. Even in the past, Turkey has not been able to rely solely on peace along the borders. And even in the post-World War II period, Turkey was never able to equip fully this last Army. The present problems of anarchy and disruption to the south of Turkey argue persuasively for modernization of this force as well.

Lastly, as one continues around Turkey in a clockwise fashion, one comes to the Mediterranean and Aegean coastal areas. Traditionally that quadrant of Turkey has had no numbered Army assigned, because the area bordered on a NATO ally. But the withdrawal of Greece from the NATO integrated military command structure and the cutting off of air defense radar reports to the 6th Allied Tactical Air Force command post near Izmir left Turkey with a very vulnerable coast along which (because of the good weather) are many training installations. To deal with that vacuum, in 1976 Turkey created a small planning headquarters to plan for coastal defense. To indicate its different nature from the three numbered Armies, this headquarters was called the Aegean Army Headquarters. But apart from training inspection and planning responsibilities, nothing changed within the numbered Armies; they still remain earmarked for NATO tasks and are still in their NATO locations. It is well to remember this when witnesses representing other countries tell this body that a giant army has been formed and targeted against Greece. If these reports refer to the First Army by the Bulgarian border, those forces remain in the same positions they have held for over 30 years, defending the approaches to Istanbul and the Turkish straits. If these reports refer to the Aegean Army Headquarters, they refer to a planning headquarters whose defensive tasks would have to use other Armies' units. There is no vast Army assembled against Greece; it is a myth.

So far I have concentrated on Turkey's NATO role in a limited context. But recent events in the Middle East should push us to look at the utility of Turkey in the context of mischief in Iran and Afghanistan. We should remember that one of Stalin's first demands after the War was for joint control of the Turkish straits and annexation by the Soviet Union of the Turkish provinces of Kars and Ardahan. In 1946 the Soviet Union invaded northwest Iran. Its armored divisions then swung towards the Turkish border in an effort to put political pressure on Turkey for Stalin's demands. We should remember those events as we look at the present turmoil in Iran and the Soviet presence in Afghanistan. As long ago as May of 1957 a JCS document stated, referring to the Turkish forces from Erzurum to Lake Van, "This force is an effective deterrent to any Soviet plans for operations in the Middle East. A force of this magnitude, sitting on the flank of any Soviet penetration into Iran and/or Iraq via Azerbaijan, would be a constant thorn in the side of the aggressor." (JCS 1887/363, declassified in 1978.) While we understood in 1957 the utility of a strong Turkish presence along the Soviet-Iranian-Iraqi border, we have forgotten it over the years.

Turkey has three separate defense problems. For some years both Turkey and NATO placed emphasis on the defense of the straits and along the Soviet border. Turkish forces on the southeast were left for "later" improvement. But with CENTO's disappearance, the collapse of Iran and the turbulence in Iran, Iraq and Lebanon, as well as the shadowy role of Syria in the Lebanon situation, all Turkey's forces need to be brought into the modern age. This task has been neglected for too long. The President's program is vital not just for Turkey, but for NATO and the United States.

Secretary Perle has testified in detail on the problem. I strongly support the program to cure the problem. And I deplore efforts made by those who, on behalf of the foreign policy of other countries, seek to attack this program by misrepresentation. A strong Turkey can play a useful role in modifying problems which are occuring or can occur not far from its borders. But it cannot play a helpful role with archaic equipment and no mobility. Both NATO and the U.S. need a strong anchor at this end of NATO's defensive arc.

WIN NEWS
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TESTIMONY ON: WOMEN AND DEVELOPMENT
WITH SPECIAL REFERENCE TO AFRICA AND HEALTH AS A PREREQUISITE TO DEVELOPMENT

We are submitting for the Record, two publications as factual background for this testimony:

- "Postscript" to the HOSKEN REPORT: GENITAL AND SEXUAL MUTILATION OF FEMALES, the summary report of my research trip to 11 countries in East/West Africa in February/March 1983; and
- "A Crucial New Direction for International Family Planning", my article published in the January/February issue of THE HUMANIST.
- "The CHILDBIRTH PICTURE BOOK (CBPB) / PROGRAM: EVALUATIONS BY USERS".

Mr. Chairman:

I appreciate the opportunity to share with this Committee my extensive experience on Women's Development as Editor/Publisher of Women's International Network (WIN) News, an open, participatory communication and resource Network that reports on women's development and speaks for women's rights worldwide.

My statements summarize my experience in the field, especially in Africa, as well as hundreds of research reports especially concerned with women's health and development that I edit and list in WIN NEWS. Specific field experience is given in the above two publications and is based on my work as Editor of WIN NEWS since 1975: this is our tenth year of reporting and functioning as resource network on women's development worldwide.

THE REAL REASONS FOR HUNGER IN AFRICA

Famine in Africa - caused by recent droughts - once more has gained world attention. Urgent requests for funding and for emergency food shipments have been made again in Congress. Quite aside from this relief for natural disasters - the third major food emergency in Africa in less than 10 years - it is a fact that the per capita food production all over Africa has been steadily decreasing for the past 10 years - as all the statistics submitted to Congress by US AID confirm.

Quite aside from natural disasters, many African countries which previously exported food and certainly were able to feed their own populations quite adequately, now have to import food to survive: for instance, Ghana, Sierra Leone, Zambia, Mali, have had to import steadily more and more food, with hunger increasing. This trend can be observed regardless of weather conditions.

To this should be added that even at the height of the previous famines in Africa, cash crops continued to be exported; for instance, Senegal exported large quantities of peanuts though food crops had to be imported to feed the hungry.

In many recent statements made by the World Bank and seconded by USAID, it has been claimed that the reason for the decreasing food production is that farmers are not paid enough for food - and that food prices in Africa especially are artificially held down by the Governments in favor of the urban populations. As a recent Editorial of the New York Times (Sunday, March 11th) claims:

> "A major cause of this downward spiral has been the failure to provide adequate compensation to farmers. And the main blame for that falls on the state marketing boards established in most African countries when they became independent. . ."

But, the most crucial reason as to why Subsaharan Africa's food production is steadily decreasing - while its population growth rate is steadily increasing - has not been mentioned at all: the farmer in Africa is a woman.

in Africa,
The real reason for food shortages/that all "development experts" have consistently ignored,is that women produce up to 80 percent of the food (as opposed to export crops) (according to the Economic Commission of Africa). And women have been largely left out of modernization and development. The best kept secret among development advisers is that food farming in Africa is a woman's job - and always has been. Women are responsible - according to African traditions - to grow the food; to prepare, handle and store food is and has been a female task. Women also sell the food they grow and do not need themselves in the markets - as everyone who has ever visited an African market can observe: but evidently, the western, male development experts don't see, because all development assistance, where agricultural production is concerned, has been exclusively provided for men: Men grow the export crops which are sold overseas by the governments. With that income, governments buy armaments and luxuries, most of all cars. For instance, the automobile population in Africa is growing at least twice as fast as the human one at present, despite drought, famine and poverty.

Women are left in the countryside; men long ago have left the villages and can be seen in every city and town, hanging around, unemployed, often drunk. Women are responsible for feeding their many children and they are left behind in the drought-stricken, rural areas, becoming the helpless victims. Men go home to their villages often only once a year to father another child and to eat the food their wives produce; often, they have another wife in the city. Their contribution is to father as many children as possible to bolster their egos and confirm their manhood.

As I said in the article in The Humanist, male sexuality is completely out of control; yet women are sexually mutilated claiming that female sexuality is dangerous. Female genital mutilation continues to be widely practiced in a huge area across Africa (see Map), involving more than 80 million girls and women (see Women and Health below).

The responsibility for feeding the large families rests traditionally on the mothers; thus men have no incentive to curtail their families. On the contrary: they expect that their children will support them in old age and their daughters are a handsome source of income. On reaching puberty, the fathers trade them to the highest bidder for a hefty brideprice. All this is documented in the article on family planning, and in WIN NEWS and the HOSKEN REPORT: Genital and Sexual Mutilation of Females. This state of affairs has been totally ignored by international family planning programs and especially those financed by USAID. Predictably, not only are populations rapidly increasing all over Africa, even in the poorest countries, but the population growth rate has dramatically increased since family planning started ten years ago as an organized, internationally-financed activity.

Now, let me address the claim that low prices for food are responsible for underproduction by farmers. While this may be true in some developing countries, it is not true in Africa. As anyone who has been to African markets knows (and I visited markets again in 11 countries of East/West Africa in 1983), food is not at all cheap: indeed, knowing the salary ranges paid by governments (the largest employers in each country) one marvels how it is possible to feed the large families from the meagre governmental salaries.

Food prices in Africa on the average, compared to what food costs in the U.S. - are often considerably higher: but then the male World Bank and USAID experts who make such claims are totally ignorant on the subjects as they don't go shopping for food and have no idea of what the costs of basic foods are.

The International Monetary Fund and World Bank, seconded by US AID, have long agitated concerning the increase of food prices: recently, the Government of Tunisia was persuaded to give in to those demands and food prices were increased; this led to countrywide riots. A few years ago the same was tried in Egypt with disastrous results. It will lead to similar riots everywhere it is tried and will result in widespread revolution in countries which already suffer from great political instability. But, it will do nothing to increase food production: because food in Africa is grown by women; that is, women are the majority of the subsistence farmers. As long as all international development agencies continue to discriminate against women - as they have for decades or ever since "Development" became an international issue (after World War II) - the food situation in Africa will get worse and worse.

It is interesting to note that traditionally in Africa, women have no ownership right to land: land was owned communally. This is once more documented in the State Department's Human Rights Country Reports. This state of affairs is now confirmed in agricultural development projects when land ownership is conveyed to the male head of the family (on behalf of the family) even though he is often not even present.

What is the result of depriving women of all land and property ownership on the productiveness of food? Women are pushed off the best and most fertile land, which is used for government-supported export cash crop schemes. It is made more and more difficult for women to produce food crops on the poorest and most distant plots - which predictably decreases food production and provides no incentives to improve land which a woman is not allowed to own and which she may be forced to leave at any time.

Traditionally, land was used communally; but with modernization, land - which is the essential resource in an agricultural society - becomes the exclusive ownership of the male head of each family, to do with as he pleases. In most of Subsaharan Africa, women cannot own anything, they cannot get loans for their agricultural production, for seeds, or fertilizer, or tools - for no other reason than that they are female. They are also deprived of their traditional communal access rights to land which is now owned by men who have left the land and gone to the cities, and who have never been concerned with growing the subsistence food crops.

In addition, if one examines who is trained (for instance in agricultural extension colleges or any other internationally-financed training program related to agricultural production), one will find almost only men. It is claimed that women are far too busy with their families to spare the time for training. In any case, the agricultural planners and international experts who organize the programs have always ignored women. Typically in Kenya, which has imported some agricultural machinery, one can see now tractors at work in the fertile fields near Lake Victoria: the person who rides the tractor is always a man. Nearby, groups of women will do the backbreaking work of weeding, as always, with a hand hoe. And the same situation is repeated over and over, all over Africa.

By now, the results of this discrimination against women farmers are visible to all, and have been widely documented in numerous research studies for instance by the FAO (Food and Agriculture Organization of the United Nations). In WIN NEWS (Winter issue , 1984) we have listed a series of FAO research studies on women and agricultural development as well as all the background papers to the recent "Expert Consultation on Women in Food Production" which document in detail the discrimination against women farmers that has led to the failure of large numbers of development programs. (See The Domestication of Women: Discrimination in Developing Societies by Barbara Rogers, Kogan Page Ltd. (UK), 1980).

In turn, the large agricultural programs that introduce new technology to "modernize" agricultural production, exclude women from training, who then lose the few sources of income they traditionally had; for instance in Indonesia, rice mills were given to men only, thus eliminating women's work. Farmer cooperatives everywhere are organized by men, and for men, ignoring women and women's farming needs, and excluding women from all decision-making and most of all, from the benefits and proceeds of the cooperatives.

The results of these appallingly discriminatory policies, which are pursued by all internationally-financed development programs, can be seen now in Africa, where food production is steadily decreasing; but the tragedy is that women and children are the vast majority of the victims of famine, as can easily be seen in the refugee camps: most of the refugees - especially in African camps - are women and children.

In Summary, let me state that based on my experience visiting Africa, as well as the documentation of many research reports that I regularly read and review in WIN NEWS, it is clear that present policies as pursued by US AID, the World Bank, FAO, UNDP, and other international agencies, are only compounding the problems of hunger and the insufficient food production, because they all discriminate against women. Though the facts have been amply documented, as I have shown above, all research reports are ignored. For instance, the FAO has dozens of research studies about women in agriculture, financed by the Agency, all of which document the damaging results of discrimination: yet, these reports are ignored in their own major development programs. The World Bank in particular refuses to recognize the contribution of women farmers and their rural development programs have done enormous damage to women in agriculture, as women are entirely ignored as persons in their own right.

What is more, especially in Africa, women are responsible for growing the food to feed their families and this has been ignored by all development programs. It is not productive to talk about "families". We must ask: who needs assistance inside the family; who produces the food in the family; who is responsible for the children? Women, of course. (See Rural Women: Unequal Partners in Development by Martha Loutfi, published by the International Labour Organization, Switzerland, 1980). As documented in this study, assistance to families goes to the male head of household; it rarely reaches women and children, least of all in polygamous familes and where male/female tasks are strictly segregated.

Unless the development policies are drastically changed, providing women with the same property and land ownership rights as men, and with much more technical assistance and training (to compensate for past discrimination), and most of all, with credit on an equal basis with men, there will be increasing famine in Africa accompanied by political upheavals. The failure of large numbersof development programs has been documented as due to the exclusion of women or discrimination against women. These failures, especially in food production, by now threaten the survival and political viability of whole populations: it is time that Congress and this Committee takes action.

A complete review of development policies is in order now, with the objective being to fully integrate women in all programs, to provide compensatory training and technical assistance to women farmers in particular. Here we cannot make specific recommendations as first, a review of all programs must be made. We urge that such reviews be required from USAID / The World Bank / and all other development agencies to which the U.S. contributes.

These project reviews should require each Agency to propose overall policy changes, and to assure that at least half of all participants/trainees/assistance recipients in future be women, and that compensatory assistance and technical assistance be provided until equality is reached. We urge Congress to withhold future funding, pending the issuance of equal development policies which must be applied with each and every development program funded by the U.S., or to which the U.S. contributes.

The Percy Amendment, more than 12 years after its inclusion in the development legislation, has had little effective result in the field, as all information and field investigations reaching WIN NEWS show. We, therefore, urge that drastic policy changes be made and that Congress establish a Review Committee, comprised of a majority of women, to oversee these changes which should be required before any future funding appropriations are made. We urge, however, that food aid be immediately provided to the drought stricken areas of Africa where once more, women and children are the majority of drought victims.

WOMEN'S HEALTH : A PREREQUISITE FOR DEVELOPMENT

I testified on this subject previously, specifically on the practice of Female Circumcision/Genital Mutilation (FC/GM), that damages the health and well-being of more than 80 million girls and women in Africa and the Middle East. In WIN NEWS, we continuously report on this subject . At present, these mutilations are being exported to Europe: in France two girls died recently as a result of the mutilations and in the U.K., legislation to prohibit the operations has been introduced in Parliament. In addition, it appears that the mutilations are being modernized and increasingly introduced into hospitals, as well as becoming a lucrative source of income for physicians and trained health providers - including those trained with U.S. assistance.

We regret to report that health policies of USAID continue to ignore the health problems resulting from these operations, even in the African areas where major USAID-assisted health programs operate: this failure to prevent the mutilation of children is inexcusable on the part of AID and we urge Congress to require USAID to initiate preventive health education as part and parcel of all funded and planned health programs (see recommendations below). The failure to do so results in introducing these mutilations into the modern health care sector and means that U.S. taxpayers' contributions - including the taxes of women -are used to sexually mutilate female children all over Africa, using U.S. training and tools. Women taxpayers furiously object to this.

We urge this Committee to require USAID to immediately organize preventive education in all health/family planning programs in affected areas in Africa and the Middle East - in keeping with the Recommendations made in 1979 at the World Health Organization Seminar in Khartoum (see enclosed press release).

On my recent two-month long research trip to 11 countries in East/West Africa, I investigated the health conditions of women and visited health ministries, hospitals, and midwifery schools. Detailed information country-by-country is provided in the attached "Postscript" to the HOSKEN REPORT.

Vaccination and modern health improvements have reduced infant mortality: as a result, everywhere in Africa, the population growth rate is rapidly increasing; in Africa, women alone are responsible for feeding the increasing number of children (see above). It is no wonder that the per capita food production in Africa has dramatically decreased, given the population growth rate and the misapplication of development assistance by all international organizations concerned with development.

In Kenya, typically, the population growth rates are the highest in the world (more than 4%): because Kenya has a better developed health service and hospital system than most other African countries where maternal and infant mortality are staggeringly high. But even in the poorest West African countries, the population growth rates are increasing steadily: each woman is pushed into continuous childbearing by the male family head who has several wives and who divorces a woman for failure to bear enough children, or for using contraceptives.

Family planning organizations - as pointed out in the article, "A Crucial New Direction for International Family Planning" published in The Humanist - have failed to educate African men about their responsibilities vis a vis their children. African governments, in turn, fail to encourage men to practice family planning or child spacing or to face their responsibilities concerning their families.

Family planning programs must be directed towards men and teach men sexual control and responsibility for their sexual behavior. But this is ignored by all internationally-financed programs that are mostly directed towards women. In most of Africa, women are under male control where fertility is concerned and men everywhere practice polygamy - which greatly increases childbearing: women average 15-20 pregnancies.

The health conditions of women that I have observed in Africa, visiting hospital maternities and talking to midwives, are appalling: anemia is universal due to continuous childbearing and poor nutrition. Child marriage is practiced in many regions and girls start childbearing as soon as they menstruate. By the age of 20, many have five or six children; their bodies depleted, they are exhausted and anemic. Yet, anemia can be easily prevented at hardly any cost.

But, childbirth is not considered a concern of health programs, which mainly deal with curative care. Childbirth education does not exist at all and prenatal care can be found only in very few city hospitals. The majority of women have no health care at all. Childbirth, according to WHO, is the greatest cause of death and disability of women of childbearing age in most of the poorest countries of Africa. Related infant mortality figures are staggering and can be correlated with the practice of FC/GM.

The maternity sections of the hospitals I visited are desperately overcrowded; almost none of them have been enlarged during the past ten years, although many thousands more women are coming to the hospitals than before. Women are allowed to stay only two to four hours after delivering. Often, they give birth on the floor for lack of beds.

In Sudan, a country that exports more cotton than any other, there are no sheets, no bandages, no cotton of any kind in the maternity section of the city hospital in Khartoum, and the same is true throughout West Africa. Yet, in Sudan, there is a $16.5 million USAID health program that ignores these needs of women. FC/GM (infibulation) is practiced in most of the Sudan with devastating results for women's health.

The B.B.C. last spring showed a program on FC/GM in Sudan on TV in the UK. Though the AID program recognizes these facts, there is no indication of preventive measures. Yet, Sudan hosted the seminar sponsored by the World Health Organization in 1979 (see above). At that seminar, specific recommendations were made on the subject, including for preventive health education and training - which are ignored by USAID.

In Somalia, a $14.5 million program started implementation three years ago. The local coordinator in the Ministry of Health stated that they have serious problems in recruiting women in Somalia. My visit was hosted by the SWDO (Somali Women's Democratic Organization), a governmental body that is represented in the highest councils of Government. From my meetings with the SWDO, it emerged that the SWDO had never been consulted by USAID concerning this health program/recruitment of women.

In Mali, a $4 million health program that was supposed to include training for women, completely failed; the money was entirely wasted.

AID uses contractors, for instance, INTRAH (International Training in Health: Dr. James Lea, Director), who are introducing training for Western curative care which can serve only a few. The needs of the majority, and the needs of women and children are largely ignored. INTRAH personnel, though working in Africa, are even now ignorant about female genital mutilation and fail to include preventive teaching in their training programs, as I learned by talking to their representative in Mali.

Rosalia Rodriquez, Associate Director (Paris) of INTRAH, took part as panelist in a discussion of FC/GM at the National Council of International Health (NCIH) Conference last June. She was uninformed on the health problems resulting from FC/GM and ridiculed all efforts, including those by Africans, to abolish these life-threatening operations.

We recommend that USAID should cancel all contracts with INTRAH and find contractors who are more sympathetic to the urgent needs of women.

AID, however, continues to fund this organization and other similar ones headed by men, which fail to provide for women's health needs; women's health teams are not given an opportunity to work overseas, though this would be important especially in Moslem countries.

According to WHO (see also World Health Forum, 1981, Vol. 2, No.1), the education of mothers is the most important factor in reducing infant mortality. The death rate is twice as high among mothers who have no primary schooling than those who do. This is the same in rural and urban areas. Mothers with secondary education have four times fewer problems as infant mortality figures show.

Education of women is the single, most important factor concerning the reduction of pregnancies, as my article, "A Crucial New Direction for International Family Planning" in The Humanist documents. Yet this continues to be ignored by international family planning efforts (funded by USAID), despite the fact that this correlation has been made by many studies for years and has been shown to be true all over the world.

There are many millions spent annually by USAID on health and especially family planning programs: but women's health (MCH) is still the most neglected area in actual practice, as I have observed in the field going to hospitals and talking to midwives.

Primary health care is supposed to be a priority and training for community health workers is said to be its most important component -- on paper.

Mother & Child Health (MCH) in international health programs is an afterthought and childbirth is entirely ignored. The primary health care has now become a much-talked about objective in health ministries - including training of community health workers. When one examines who is being trained, it turns out that the primary health care worker is a man. That means, in Moslem countries, that women are left out entirely as women are prevented from consulting men, certainly not for childbirth or related problems.

It is also clear that the number of midwives trained is entirely inadequate. I visited midwifery schools in most of the countries on my trip and discovered that, for instance, Upper Volta, Mali, Niger, and Sierra Leone graduate about 30-40 midwives per year, average (for a population of about 3-5 million or more).

Traditional Birth Attendant (TBA) training has been promoted, for instance by WHO, and there is much talk about it. But, I found very little evidence in the field. Most of the health trainers sent under AID training contracts are men, which of course in African countries (many of them Moslem), is counter-productive, to say the least.

To sum up: Family planning programs in Africa - all internationally-financed, mainly with money provided by USAID and voted by Congress - channeled in different ways, mainly pays white, male, professionals for services that are to date a total failure in Africa. As far as African women are concerned, they have accomplished almost nothing.

Health for women, that is, Mother & Child Health, and especially maternity care is neglected, and training of midwives and female community health workers - especially TBAs - takes place mainly on paper only or is addressed to the highest level of already trained personnel: for instance, to teach health administrators how to use computers. This, in countries in West Africa for instance, where fewer than 10 percent of the people have access to any modern health care at all.

USAID has refunded the $25 million Project for the Strengthening of Public Health Delivery Systems in Central and West Africa (SHDS), the program of Boston University. A study of this project plan shows that only a minimal part of the program is devoted to community health - the area where the greatest need exists. And, if one reads the training manuals developed for this program, it becomes evident that the community health worker who is being trained is a man: there is NO equivalent training for midwives or female community health workers ; there is almost nothing included on MCH on the community level where the greatest need exists.

I have analyzed the program papers (copies available) and found that women's health needs are totally neglected; health education on the community level for women is not included, and childbirth education is entirely ignored.

We, therefore, urge Congress and this Committee to require USAID to redirect their training programs, including the $25 million SHDS Program and the multi-million dollar contract awarded to INTRAH, which discriminates against women and are not addressing the real needs in Africa.

The failure of AID's multi-million dollar health programs in Africa, example Mali, Somalia, Sudan, are not only a monetary loss but they have failed humanitarian goals set by Congress. In many cases they are alienating the populations they are supposed to serve, while ignoring those in greatest need: women and children.

AID, and the training programs funded by AID, send highly-trained physicians and specialized health personnel overseas for huge professional fees. Instead, community health workers/educators should be sent and teams of midwives and childbirth educators/trainers, to teach their counterparts in Africa. WIN is willing to assist with recruiting such women health education teams.

WIN NEWS has developed childbirth education materials, the UNIVERSAL CHILDBIRTH PICTURE BOOK. An outline of the books/teaching aids is attached. They are now available in English, French and Spanish and an Arabic translation will be published shortly.

Sections to Prevent Excision and Infibulation are available in English, French and Arabic, and have already successfully been distributed and used - as the attached Evaluations By Users confirms. WIN urges that preventive health education and especially childbirth education be made a major partof every primary health program, especially in Africa - using the UNIVERSAL CHILDBIRTH PICTURE BOOK (CBPB) as an easily adaptable tool that has already proven itself all over the world.

We urge this Committee to require USAID to re-evaluate their health programs in the light of the above facts and to reorient the priorities of all health programs to better serve women and children:

(1) Mother & Child Health should be the priority in every primary health program;
(2) Health Education and Preventive Health should be integrated in every program addressed to the target groups in each community: women and children;
(3) Training of midwives and childbirth educators and female nurses should be given priority in all training programs;
(4) Training of TBAs should be made an integral part and major component of every primary health program funded by AID, including updating and retraining (example training program of Omdurman midwifery school). The trainers and training advisers for midwifery and TBA training should be exclusively women.
(5) Health education programs to prevent FC/GM to be required as an integral part of all health training and primary health programs in affected areas in East/West Africa, as well as in all AID-financed family planning programs;
(6) Initiate childbirth education programs, linked to all family planning programs, especially in Africa, implemented by women's health/midwifery teams;
(7) Consult women/women's organizations and include women from each country in the planning of the program, particularly where health training is involved;
(8) Increase the number of women professionals on the planning and implementation teams of AID, and include women health professionals on all contract teams;
(9) Introduce the UNIVERSAL CBPB educational materials and/or local adaptions of the CBPB in all MCH programs and family planning programs to teach the basic reproductive and biological facts which must be understood in order to successfully and permanently reduce population growth to levels compatible with economic development.

THE PEACE CORPS

Contact with Peace Corps Volunteers (PCVs) has greatly enhanced our respect and appreaciation for the work, effort, and commitment of the volunteers, but not for the bureaucracy who are supposed to serve them, especially those in many jobs in Washington.

We would like to draw the attention of your Committee to the fact that women PCVs, according to our experience, have insufficient technical support from the Peace Corps administration. WIN NEWS has received many letters from women PCVs, asking for educational materials on health, especially the CHILDBIRTH PICTURE BOOKS and information on resources such as WIN NEWS. All technical materials and support for the work of the volunteers should be made available to the PCVs from Headquarters, that is, from Washington. Our investigation shows that though technical information is available for male PCVs on a variety of subjects, technical information is not available for women's needs especially on health. There are no health education materials made available to women PCVs despite the directives of Congress: we have numerous letters from women PCVs who state they have had no support from the Washington bureaucracy. Women volunteers in the field work as nurses, midwives, community health workers, etc. Many letters we have received from PCVs in the field ask for assistance.

We urge that this obvious discrimination, which is practiced against female PCVs and against the women they are serving, should be investigated. It has no place in an organization with humanitarian objectives, like the Peace Corps.

Fran P. Hosken

Fran P. Hosken,
Editor/Publisher
WIN NEWS

THE HOSKEN REPORT

GENITAL / SEXUAL MUTILATION OF FEMALES

POSTSCRIPT

EGYPT
SUDAN
ETHIOPIA
SOMALIA
KENYA
NIGERIA
UPPER VOLTA
MALI
SENEGAL
SIERRA LEONE
FRANCE
BRITAIN

June 1983

Fran P. Hosken.

WIN NEWS, 187 Grant streeet, Lexington MA 02173, USA

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POSTSCRIPT / HOSKEN REPORT

In February and March of 1983, I went on another research trip to visit many of the countries in East and West Africa that are included in the Case Histories of this Report. The purpose was to get a first-hand view of any changes that had been reported since 1979 - my last visit to Africa when I had been invited by the World Health Organization (WHO) to participate as a member of the WHO Secretariat in the Khartoum Seminar on "Traditional Practices Affecting the Health of Women and Children" (see chapter on the WHO Seminar). Besides learning if and how the Recommendations of this governmental Seminar had been implemented by health ministries - especially those that had sent delegations to Khartoum - my purpose was to introduce the Universal Childbirth Picture Book (U/CBPB) with its two additions on the prevention of Excision and Infibulation. These are the only educational materials developed in direct support of the WHO Seminar Recommendations #3 and #4, which ask for information and education for all people as well as stepped-up training of the health sector personnel.

The books / flip charts / and slide programs are multi-ethnic and can be used regardless of language or literacy. They are addressed to community health workers to adapt locally as needed. These teaching materials are already being used in some African countries. I also wanted to learn from this experience in the field.

Starting in Egypt, I went south to Sudan, Ethiopia and Somalia and as far as Kenya. Then to Nigeria and a brief stop in Niger and on to other Francophone countries: Upper Volta, Mali and Senegal. In the end, I also visited Sierra Leone and returned via Paris for a meeting with GAMS (Grouppe Femmes pour l' Abolition des Mutilations Sexuelles).

Before I began my African tour, I stopped in Geneva for two days to visit the Office of Family Health at WHO[1]. There are no plans for any international initiatives to follow up on the 1979 WHO Seminar in Khartoum, or to support such a Seminar in Francophone West Africa, and it appears that the issue once more is shelved by WHO.

EGYPT

In Egypt, despite the fact that there is a statute prohibiting female circumcision, this statute is quite ignored. Excision continues to be practiced on many of the girls recently born.

According to the Country Report of Egypt made at the WHO Seminar in Khartoum, up to half the girls reaching the age of excision are still mutilated. A film taken in Cairo recently by Laila Abou Saif[2] further documents these appalling facts.

But the Government takes no interest in this. The MCH (Mother & Child Health) Director, Dr. El Sayyad, who stated that in the rural areas excision is still universal, and who responded enthusiastically to the teaching materials (the U/CBPB and Additions on Excision) I sent him, has not used them in any of the many internationally-funded health or family planning programs. Dr. El Sayyad now has been given additional duties, so he has little time for MCH, and other decision-makers in the Health Ministry are not interested.

The AID-funded Family Planning Program of the Ministry of Health is planning to have the U/CBPB translated into Arabic for the major new family planning effort that is being initiated in Spring 1983. Unfortunately, the Addition on Excision will not be included: however, thoughout the book it is emphasized that any interference in the natural development of the female body/ birth process is damaging and must be avoided. The graphic presentations of the book furthermore, make the reproductive process clear, regardless of literacy - which by itself should lay to rest most of the myths as to why the operations are said to be "necessary" - which in Egypt, often are wrongly tied to health and hygiene.

The international donor agencies, when asked about implementation of the Khartoum Seminar Recommendations - especially U.S. AID (Agency for International Development, which spends vast sums of money particularly for family planning programs - reply, as always, that they will do what is requested by the Egyptian Government. They claim they do not initiate, they only "respond". But, of course, if that were true, there would be no family planning programs at all, anywhere in Egypt (quite aside from the rest of Africa or the Middle East).

One positive development in Egypt is that a "Coordinator for Female Circumcision"[3] has been privately funded last year, who works out of the (private) Cairo Family Planning Organization. She has embarked on the lengthy and difficult job of trying to sensitize mainly those working in the health sector by speaking at meetings, organizing seminars, contacting training and educational institutions, and inserting information on Female Circumcision/Genital Mutilation (FC/GM) in teaching materials.

The Coptic Church Program[4], which looked so promising and seemed quite unique in its broadly-based community approach, has not yet begun to be implemented. Only one of the Church's MCH clinics has started recently to give out information. No teaching programs have yet been developed for the largely illiterate constituents of the Church.

It also seems that the WHO Regional Office for the Eastern Mediterranean (EMRO)[5], located in Alexandria, which sponsored the Seminar in Khartoum, has lost all interest in FC/GM. This office was designated by WHO headquarters in Geneva to act as "Coordinator" on the issue. But, aside from publishing the Reports of the Seminar, nothing at all has been accomplished. WHO Representatives in the rest of Africa, many of whom I visited again on this trip, claim they are serving the health ministries and there are "other priorities".

The UNICEF Representative, Mr. Ulf H. Kreuger[6] continues to ignore the issue, despite the fact that UNICEF was asked for assistance by the Coptic Church in 1981, which he refused (despite the announcement by UNICEF in Copenhagen at the Mid-Decade Conference that UNICEF is ready to assist any community program concerned with the prevention/eradication of FC/GM).

Cairo seems more congested than ever. The number of cars, despite the economic problems, have visibly increased. The streets are full of rural immigrants in traditional dress. More young women students attract attention to themselves by their Islamic dress, with which they protest against the very modernization on which their education depends.

The ambiguous status of women in Egypt, including a discussion with Laila Abou Saif, a woman who evaluates her society realistically, is further documented in the Special Report on Egypt in WIN NEWS[6].

SUDAN

In Sudan, the problem of infibulation is acute, as was recently documented in much detail in the book by Dr. Asma El Dareer[7]. This excellent study provides not only statistics but some of the most desperate personal histories from victims of this pervasive custom. The book is edited from Dr. Dareer's thesis[8]; she also headed the research team that investigated the situation in the five main provinces of the country, interviewing both women and men from all major Sudanese ethnic groups that practice FC/GM. This book should be required reading for those who thoughtlessly promote the continuation of traditions. The tragedy of women's lives emerges from the factual presentation and is made shockingly clear by statistics: it appears that 82% of the women and more than 87% of the men asked, support the operations as practiced - mostly infibulation including re-circumcision which is now spreading in the urban areas - supported and desired by men.

Islamic fundamentalism is gaining among the population, many of whom continue to believe that FC/GM is a religious requirement. Change is further inhibited by a very difficult climate and a deteriorating economy, plus the absence of any international support on the part of WHO, UNICEF or US/AID, or other international health activities.

On my visit to Sudan, I found that there seems to be no concern on the part of the Health Ministry's decision-makers about changing the situation of women; indeed, even the head of the Department of Health Education, Dr. Obeida Magzoub Alawi, who is making a valid effort to raise the consciousness of the people about health problems, states "we have more important priorities than FC/GM"[9].

The only positive initiative is that of the Babiker Badri Scientific Society, located at Ahfad College for Women in Omdurman[10]. But this private effort, concerned mainly with consciousness-raising by a small group of educated women, and headed by Dr. El Dareer, has little influence on the majority who cannot read/write (more than 90% of women) and has no political clout. In the final analysis, change in any area - and especially where traditions are concerned - needs broad-based political support first of all. This has been demonstrated persuasively by the Chinese effort to eradicate the imbalance of the sexes which threatened all Chinese development. All political support to abolish the mutilation of female children is totally lacking in Sudan and in Egypt as well.

Though it is clear that the mutilations are practiced also in the families of decision-makers, including those in the Health Ministry, these men don't even try to initiate preventive measures. Though the Sudanese Health Ministry hosted the WHO Seminar in 1979, its Recommendations are ignored; no one has ever begun to think about implementation.

The head of Midwifery Training in the Ministry of Health, Hawa Mohammed Salih, would like to use the CBPBs for training, but they would have to be translated into Arabic first - as few women know English. They also have to be adapted according to local needs. As always, the question is where to get money - the Health Ministry has other priorities than preventive care or childbirth. All health ministries - following the Western medical model - are, of course, concerned with curative care and disease.

International health programs, such as a new $18 million Primary Health and Training Program[11] for the rural areas funded by US/AID, quite ignore preventive measures. Indeed, "Female Circumcision" though the project papers state that it is widely practiced (including in Khartoum) is never mentioned as a health hazard that needs to be dealt with.

In Khartoum, I also went to the City Hospital's Maternity which as in all Moslem countries, is in a separate wing. As most everywhere in Africa, there are not enough beds: women are doubled up on plastic-covered mattresses, or lie on the floor - without any sheets. According to the Matron - the midwife in charge - they have no drugs; no sterilizers; the operating room in the Maternity can't be used. There is not even soap, nor cotton, nor bandages; this in a country that exports huge amounts of cotton. The hospital administrators don't care, the Health Ministry won't discuss it, and when I told Dr. Mary Ann Micka, the Coordinator of the $18 million US/AID Health Program, she shrugged and told a story from ten years ago about the mismanagement of health resources by "these Sudanese".

The Situation at the Khartoum Hospital Maternity is not unique. Similar conditions I found in West Africa as well, and no doubt they exist all over Africa. In the face of rapid population growth and more women seeking help in the hospitals, every Maternity is incredibly overcrowded and understaffed. Yet, Maternities are the most neglected areas in each hospital - as all the decision-makers are men.

The Sudan Women Union is a political organization and is concerned with many things but women's health cearly is not one of them. And life goes on: change is evident in some areas: in Khartoum, for instance, there are more and more cars clogging the streets. But where women are concerned, no change is visible; and while in the past there was sincere concern expressed by many educated people - especially those in the health professions - there seems to be now a reluctance to even mention the subject of "female circumcision", which is still the term used everywhere in Africa for even the severest kind of mutilation.

On the sandy sidewalks of Khartoum, one meets goats and sheep as well as street vendors. But, as in the past, most jobs in the modern sector - including most services - are done by men: they pray at prescribed times, kneeling down on their prayer mats, no matter where they are. Fundamentalist Moslem religious influences are growing both in Sudan and Egypt, while economic conditions deteriorate. (See WIN NEWS, IX-2, Spring 1983, Special Report on Sudan).

ETHIOPIA

In Ethiopia, at least in Addis Ababa, change is actively and politically supported, and strongly pushed by the Health Ministry. Ethiopia is the only country I know where MCH (mother & child health) is a priority, as far as health policy is concerned, and where the Director of Mother and Child Health is a woman - Dr. Tewabech Bishaw.[12] There is now quite a different attitude about the priorities of health care: in Africa, what organized health care there is, largely depends on the Government.

The MCH Department is also sponsoring a Research Study and Investigation in four provinces of Ethiopia to get some facts on FC/GM and establish what is actually practiced, where, and why. This investigation is funded by UNICEF - another first - and the UNICEF Representative, Ms. R. Padmini (from India) takes a personal interest in the issue, though she had never heard about the practice before coming to Ethiopia two years ago.[13] This Investigation, organized and supervised by an Ethiopian woman sociologist, Ms. Alasebu Gebre Selassi, is to be completed in late Spring 1983 and will provide the data needed to start an action/education program, although as Dr. Tewabech Bishaw assured me, "We will not wait with preventive education programs until all the data are in". This is also a refreshing view. In so many other countries, "research" is often used to delay action; indeed, it often serves as an excuse to do nothing!

A number of the UNIVERSAL CHILDBIRTH PICTURE BOOKS (U/CBPB) and CBPB Flip Charts were made available by UNICEF to the Ministry of Health, already in 1982. At the time of my visit, the Ministry was printing 5,000 copies of the CBPB Flip Charts with Africanized faces and an Amharic translation added to the English text: they will be used for TBA training all over the country.

Though Ethiopia is one of the poorest and least developed countries in Africa, there seems to be quite a new and positive approach to implement change. Health is generally of little concern to the male politicians in Africa, as long as some hospitals are available to them and their families in the capital. Health of women has the least priority also in international health programs. The World Health Organization is stating over and over that the health statistics of women in most developing countries are not at all improving and that childbirth continues to be the most frequent cause of death and disability of women of childbearing age. But then, WHO, in their own programs, totally neglects childbirth and preventive health education; training of women health workers and TBAs has little priority, as is shown by the SHDS Program by WHO/USAID in 20 countries in West Africa.[14]

In Ethiopia's MCH Department under the leadership of a woman, supported by a woman Representative in UNICEF, change seems to be underway. And, for the first time ever, genital mutilation which is so widely practiced in Ethiopia - including in the most drastic form of infibulation - is seen as a problem that must be dealt with on the health level as a priority and by the Government.

In Addis Ababa, I visited again the Hamlin Fistula Clinic, a unique institution organized, run, and funded by the Doctors Catherine and Reginald Hamlin (from Australia and New Zealand respectively). They also do most of the operations that require very special skills. The Hamlin Clinic has 40 beds that are always filled.

A fistula is a rupture in the wall of the vagina which is due to obstructed labor; fistulae are especially frequent in African countries where genital mutilation is practiced, as the hardened scars of the operations prevent dilation. In the case of infibulation, obstructed labor is the rule; without extensive cutting, both baby and mother may die or the internal genital organs tear. Fistulae, if the mother survives, often are the permanent results. Though fistulae are a major problem of women in Africa, especially in rural areas where no trained midwives are available, the Hamlin Clinic is the only facility of its kind; it also trains surgeons to do this delicate operation which requires several weeks of aftercare and bedrest.

SOMALIA

In Somalia, though it is the only country that has set up a Commission to Abolish FC/GM within the Government, no effective progress towards this goal is visible. Revisiting the Benadir Hospital for Women & Children in Mogadishu confirmed that all the women coming to the hospital are infibulated. Indeed, the husbands request that they are sewn up again immediately after delivery, despite the problems this may cause, so the Catholic sister working in the hospital stated.

The Health Ministry is mute on the subject, and despite Somalia's participation in the Khartoum Seminar, no attempt has been made to implement its Recommendations. It is unknown what, if anything, the "Commission to Abolish Female Circumcision" has accomplished.

Somalia has been concerned with the influx of more than a million (some say 1.5 million) refugees, most of them ethnic Somalis from Ethiopia, from the Ogaden area. For Somalia, with a population of about 3.5 million, to absorb more than a million newcomers who have nothing at all and are starving is an impossible task.

Many of the refugees live in Camps organized by the UNHCR (United Nations High Commission for Refugees) and by now, private relief agencies from all over the world are involved. But, though all the refugees also practice infibulation, the issue is once more ignored. No one wishes to know. The lives of the refugees are completely changed; they must adapt to a different environment to survive: it would be easy at this point to prevent the practice of infibulation from being continued by the refugees, as health services are provided in the camps - but nothing is said.

The SWDO (Somali Women's Democratic Organization)[15], initiated at the end of 1982 in several neighborhoods of Mogadishu, some meetings to discuss FC/GM, so Batula Hassan Ali, the SWDO Secretary for Foreign Affairs stated. It was learned from these meetings that the older generation solidly supports the practice, while only young girls of high school age oppose it. This low key effort, which was developed on a voluntary basis (the SWDO and all its activities are funded by the Government) also includes some radio programs in Mogadishu where the health problems resulting from FC/GM are discussed, based on research done at the Medical School. So far, no activities exist outside of Mogadishu and it appears that FC/GM is accepted by all the people as "natural" - as a custom for which there is no alternate. Indeed, I believe there is little awareness among most of the people that this practice does not exist in other parts of the world.

The Rural Health Delivery Program of US/AID[16], (see "Case Histories:Somalia") is in deep trouble; according to the AID contract coordinator working out of the Ministry of Health in Mogadishu, the program is being "cut". Two training and operational centers in Baidoa (north) and Burao (south) are being built and organized. Though the program is supposed to be past its half-way implementation period (started 1979), training is only just beginning. Only a limited number of women could be found to qualify for the training programs and most of those are beginning to drop out, according to the Coordinator; this in a Moslem country where men cannot attend women because of segregation.

At a meeting with SWDO representatives and other leading Somali women, I brought up the subject of the AID health program and its difficulties in recruiting women. It then turned out that the SWDO had never been consulted or informed by AID about this program, which was entirely unknown to all Somali women, though the SWDO as a grassroots and political organization, would have to be consulted by any international body seriously concerned with recruiting women.

The AID project continues to ignore all preventive measures concerning FC/GM in all its training programs.

KENYA

In Kenya, the edict by President Daniel arap Moi prohibiting FC/GM has made a great impression in the health sector. In fact, this prohibition is known and cited all over Africa, even in the Francophone countries: it is especially important coming from the president of a country whose predecessor, Kenyatta, is widely known and cited as the principle promoter of FC/GM.

Though the prohibition is known throughout the health system, which in Kenya does reach into the provinces, no preventive education or activities to stop the operations can be found at present. Therefore, my meeting with the head of the Medical Training Department in the Ministry of Health, Dr. J.G. Kigondu [17], came as a surprise: Dr. Kigondu - to whom I showed the CBPB and Addition on Excision - immediately asked if I would give permission to reprint the book in Kenya plus the circumcision addition. He then produced a statement he had written about the health problems linked to the operations. At this writing, the arrangements about sending the CBPB plates to Kenya are in progress.

Dr. Kigondu also heads the National Family Planning Program which is internationally funded, and in this way, the CBPB will be widely distributed. It will be very interesting to evaluate the impact of this education program, which will be used in Kenya for the first time on a mass scale. Some important lessons, I hope, will be learned from introducing and using these materials with a largely illiterate population.

WIN NEWS has received many encouraging responses to the U/CBPB from individual midwives, nurses and Peace Corps women volunteers in the past, who have tested and used the books with rural people: they wrote that women - most of whom had already several children - were fascinated to see how a fetus grows. Some women even traced the drawings to take them back home to show them to other women of their families. The embarrassment that is sometimes expressed by women in the modern sector who were educated by missionaries and/or in Western countries, is seldom an issue especially in rural areas where most people are acquainted with the facts of birth. It depends, of course, on how the material is presented and the attitude of the teachers - as a woman M.D. from Nigeria pointed out when the issue was discussed in a meeting with African women.

Most Africans, both women and men in the health sector, to whom I showed the CBPB, were anxious to have copies to use for teaching. But in Nairobi, the regional Coordinator of FPIA (Family Planning International Assistance)[18] Ms. Nancy Harris (from USA), upon seeing the book, immediately stated: "This is entirely unacceptable in Africa ". I told her that the Health Ministry was going to reprint the book in Kenya; she had no reply. Her reaction, unfortunately, is typical for the attitudes of the international, multimillion dollar family planning organizations that are all dominated by male values and run by men.

FC/GM continues to be widely practiced in many rural areas, as my visit to the Maternity Hospital of Nairobi and four district hospitals in the Central and Western part of Kenya established. I learned by talking to the chief midwives that anemia is the greatest health problem women face - many of whom are pregnant or breastfeeding most of their lives. And everywhere the women grow the food for their families and go to market: they are the backbone of the rural economy. Yet, in Kenya wherever there is a tractor, the person who rides it is a man, while the women work with hoes.

Kenya has an organized, provincial health delivery system which is superior to most others in Africa: as a result, Kenya's population growth rate is the highest in the world, or more than 4% (eight live births for every female in Kenya). In other African countries, maternal and infant mortality are still so high - in the absence of any organized modern health system outside the capital or large cities - that the population growth rate averages 2.5-3%, though many women in Africa go through more than 15 pregnancies. Once health delivery reaches the rural areas of more African countries the population growth rates will soar everywhere. FC/GM, of course, takes a terrible toll, especially where no rural health systems exist.

Nairobi is a most handsome and rapidly growing city: despite the severe economic problems and import restrictions, Nairobi is continuing to build. Much of the Kenyan countryside is incredibly beautiful and fertile, and despite its location on the equator, the country is blessed with one of the most delightful climates in the world.

NIGERIA

Though the Federal Ministry of Health of Nigeria sent a delegation to the Khartoum Seminar in 1979, the Seminar recommendations have remained on paper; indeed, most decisions concerning health are made mainly on the State level. Yet, it was the Statistical Office of the Federal Ministry that established the fact, two years ago, that FC/GM is practiced in every state and by the vast majority of ethnic groups. (See Case Histories: Nigeria).

In Lagos, besides meeting with Dr. Bertha Johnson, who headed the Health Ministry delegation to Khartoum, I met with six other women physicians who work at the University of Lagos Medical School. They all are members of the Medical Women's Association of Nigeria[19]. Dr. Nike Grange, a pediatrician whom I had met on my previous trip, arranged the informal meeting as she knew my publications on FC/GM. The Medical Women's Association of Nigeria is affiliated with the International Medical Women's Association; their World Congress was held in November 1982 in Manila and was attended by several of the Nigerian women physicians. At that Congress, a paper was presented by Dr. Olayinka Koso-Thomas of Sierra Leone on the health problems associated with FC/GM operations that she had seen in her own practice.

This paper made such an impact that the International Medical Women's Assn. passed a recommendation that members should assist in the abolishment of this practice and that they should help with preventive education in affected countries.[20]

At my meeting with the Nigerian women physicians, some of whom had been at the International Congress, the whole issue of FC/GM was discussed; my Report on genital and sexual mutilation was shown and I asked the women physians about the present situation in Nigeria. No one had any definitive information, which led to a discussion about how to establish these facts.

Before the meeting was over, Dr. Muriel A. Oyediran, the National Secretary of the Nigerian Medical Women's Association, proposed that they should undertake a country-wide research study. Since their members live in all parts of Nigeria and have access to hospitals, this is relatively easy to do. Such a study would be proposed formally at the next meeting of the Medical Women's Association of Nigeria, Dr. Oyediran said.

On the one day I had in Kano, I visited the City Hospital: the women who come to deliver there are allowed only 2-4 hours to stay and rest after giving birth because there is no room. Maternities are terribly overcrowded everywhere in Africa, and especially in Nigeria. I talked to the Matron of the Maternity and the Director of the Midwifery Training School attached to the hospital. Both wanted to have as many CBPBs as I would send them - especially for the school.

At my previous visit to Kano in 1979, I was told in the hospital about the "Gishri Cuts". According to the physicians, young girls about 12 or just beginning puberty are brought in with their vaginas cut open. It appears that the Hausa practice child marriage but the girls are too small to penetrate; the remedy is to cut their vagina so the men who have acquired them can have sexual intercourse. The doctors say that the girls who are brought in bleeding and lacerated most likely will never be able to bear children, even if they survive the sexual attentions of the men who bought them for a steep brideprice and who are, therefore, determined to get something for their money - even if the girl dies.

When I inquired about the Gishri Cuts at this visit, I was unable to get any more facts, though the people I talked to in the hospital knew what I was talking about. They claimed that this practice is diminishing now. Yet, no one has really investigated this situation.

In Nigeria, change is visible everywhere, especially in the streets. Even in Kano, the center of the Moslem Hausa, the streets are full of cars now. Four years ago, when I visited Kano for the first time, there were hardly any at all. But though expensive cars seem to be increasing even faster than the population, the economic conditions everywhere in Africa including in Nigeria, are rapidly worsening. In January and February, Nigeria expelled more than 1.5 million illegal guest workers: it seemed a bad time to travel around in Nigeria and I had to cut my visit short.

UPPER VOLTA

Though in Upper Volta there is no resistance to change or to try something new, the traditional way of life goes on much as in the past.

In 1979, the Federation des Femmes Voltaiques[21], the national women's organization, was so concerned about FC/GM that they sent their President to Khartoum to the WHO Seminar, to learn what can or should be done to prevent these operations which are widely practiced all over the country, often in very drastic ways. At my visit in March, it appeared that the present leadership is no longer interested: their representatives at the Copenhagen Mid-Decade Conference made that known. In Ouagadougou, I had great problems trying to contact any of their representatives in the limited time I had.

The problems of mechanical failures that beset all communication systems in Africa make it extremely difficult at times to meet with the people one most wants to know. Transportation problems also are very frustrating - though taxis are available everywhere. Streets and buildings are poorly marked and very hard to find. Telephones seldom work and even if one succeeds to make an appointment (after spending several hours on the phone) it may be that the person you have arranged to see had to leave. Sometimes it is more productive to just take a taxi and go from one place to another. In addition-working hours differ from one country to another - some Moslem countries have Friday as their weekly holiday - some close down in the middle of the day for several hours - others don't.

In the Health Ministry, the CBPB was well received; the Director of Public Health asked to have several copies of the book, including the Addition on FC/GM in French to circulate among his colleagues. He stated these materials would be especially useful for a TBA training program that was currently being planned.

As in other countries, I went to see the Midwifery Training School as the midwives not only have important information on the status of FC/GM, but they are training the women who are most likely to have an influence on change where reproductive health is concerned. Mme. Binta Guindo, the Director of the Midwifery School[22], said yes, she was very much concerned about the practice, as it made grave problems for the midwives. The School only graduates between 20-25 midwives a year, which clearly is a "drop in the bucket" in a country of nearly seven million people, and this number cannot possibly begin to take care of their needs.

What is more, in Upper Volta, as in many other African countries - especially Moslem ones - nurses are mainly men, except for those who choose to specialize in midwifery. And the community health workers that are being trained by the new Primary Health Programs that are so vigorously advocated by WHO (many with international assistance), are almost only men, as I discovered in the field.

Indeed, David Werner, the champion of community health (Where There Is No Doctor[23] is translated into dozens of languages now), speaks of the community health worker exclusively as he. Werner has a lot of influence; his sexism is accepted as the gospel everywhere. As was shown in Somalia, the recruitment of women to internationally-funded health programs always seriously lags behind. Locally, it is often claimed that "women have no time" for training as they must take care of their families. Even in Ethiopia, this statement was made when it came to health care: it was countered by Ms. Padmini, the UNICEF representative in the UNICEF-sponsored training programs, by asking why it was that men have time to train? The Health Department responded: "Men get community support". Ms. Padmini suggested that there was no reason why women should not be given the same community support, to enable them to get the training to serve their communities. But most international training programs are run by men who accept without further question, that women are excluded from the health training that they so urgently need.

I visited again the Yalgado Hospital Maternity and talked to its Chief, Dr. Joseph Kabore (see Case Histories: Upper Volta), who is also the Medical Adviser to the Midwifery School. Dr. Kabore, to whom I had sent the French CBPB as soon as it was published, has many obligations and responsibilities. Though he has always been concerned and spoken about preventive education, the educational materials I sent him have not been used. The Hospital seems to be busier and more overcrowded than ever, with more patients coming for services,and the new addition to the Maternity, which has been needed for a long time, is still only proposed.

Ouagadougou also has many more cars since my previous visit in 1979, when most transportation was by motor-bike. This, despite the fact that recurring droughts have worsened the economic problems of this very poor, landlocked country at the edge of the Sahara, where the only thing that is plentiful is sand.

MALI

In Mali, the Union National des Femmes du Mali (UNFM)[24] are taking the initiative where FC/GM is concerned, which is an important first for Francophone West Africa. As a government-funded organization, they enjoy considerable political influence and clout. The organization reaches throughout the country and they have representatives in all the "cercles" (administrative units), who participate and can be mobilized to act.

The UNFM started in Summer 1982 a national investigation on four subjects: Excision, Abortion, Infanticide and Teenage Pregnancies by unmarried girls. The program was launched with a large meeting by the UNFM in Bamako; other meetings were held in other towns. A background paper was prepared by three experts (a lawyer, a sociologist and a gynecologist).

UNFM representatives from different parts of the country were asked to inform themselves of conditions in their areas regarding the four subjects of the inquiry. Then, questionnaires were sent to all areas and results were just beginning to be received when I visited Mali. In addition, a series of meetings will be held all over the country to enable illiterate women to speak out and record their opinions.

In a meeting with Mme. Sy, Mme. Ba, and Mme. Kankou, officers of the UNFM, they explained this program which is a major initiative. They expect to develop an action program as soon as they have the results. The UNFM leadership is composed of many professional women whose husbands are often to be found among the country's political leadership.

The UNFM asked me for 200 copies of the CBPB with Additions on Excision (in French) and Mme. Sy, who is a midwife by profession, stated that this book is just what they need.

A visit to the Gabriel Toure Hospital established that little has changed since my last visit in 1979. Practically all the women who come there to deliver are excised and most of them require episiotomies. The hospital - as in the past - has an excisor who operates on the newborn babies; it is said that in this way, infections are avoided, especially tetanus.

At the P.M.I. Central[25]- the main baby clinic of Bamako that looks after children and their mothers - I again met Dr. Liliane Barry, a pediatrician by profession and the head of the Clinic as well as Chief of the Division of Family Health of the Ministry; the P.M.I. Central serves as an example for the P.M.I. system which is the French version of MCH clinics and exists in all Francophone West Africa. A number of training programs are also run there for the staff. Dr. Barry asked for 10 copies of the CBPB with the Addition on Excision to circulate among her colleagues and to try them out. After that, their further use and adaption will be discussed.

In the Health Ministry, which is located high on a hill out of town, I met with the Head of the Training Division, Dr. Boubou Cissoko, who asked for samples of the books to try in their training programs.

The $4.5 million U.S./AID - supported health program[26] which was intended to initiate a new health delivery system and which had just started implementation when I visited Mali in 1979, has failed. Training of both male and female community health workers, as well as TBAs and midwives, was to be included in this project. In the end, instead of implementing the program in two areas, as planned, the Harvard International Institute of Development (HIID) - the contractors, were able to establish training only in one area. By now all activities that were to be continued by the Ministry of Health have stopped. The $4.5 million have accomplished almost nothing; this in a country where the health needs are overwhelming and resources are so limited that maternities have not even sheets.

The present AID Regional Health Adviser, Dr. Peter Knebel, told me that the HIID medical teams were unaware that FC/GM was practiced in Mali. At a meeting with Dr. Knebel and Dr. Michael Denning of International Health Programs, who was in Mali on an INTRAH Project[27], female circumcision was discussed; Dr. Denning was in Bamako to conduct a series of seminars on health education and sexuality for midwives and P.M.I. health and family planning workers at the P.M.I. Central. Dr. Knebel stated, and was seconded by Dr. Denning, that they believed "female circumcision has little effect on female sexuality, as after all, vaginal orgasm is not influenced by the operations"!

As in other countries, I visited the Midwifery Training School which is graduating about 50 midwives a year. The graduates are sent to rural areas where they are teaching TBAs. Mme. Sissoko, the Director, would like to have enough books to give one to each of the graduates to take to the rural areas - including the Addition on Excision.

This statement by the WHO Representative, Dr. Diop[28], with whom I met, is interesting: he said that FC/GM is promoted and supported by all the Moslem chiefs throughout the country who say that the prayers of a woman who is not excised are not heard; hence, she has to be operated. He used this as reason why nothing could be done to stop FC/GM!

SENEGAL

In Senegal, the Wolofs - the dominant ethnic group in Dakar (36% of the population) who enjoy considerable political power - do not excise their girls. However, almost all other ethnic groups in Senegal do. Since there is a good deal of immigration to Dakar, excision is also practiced in that city.

Dakar functions as the regional institutional center of much of Francophone West Africa as well as the seat of the centralized Senegalese Government. The rural areas are very traditional; FC/GM is widely practiced including in drastic form (infibulation along the Senegal River, according to the Midwifery School at Dantec Hospital[29]).

The Ministry of Health seems to pay no attention to FC/GM, nor does any other governmental body including the Ministry of Promotion Humaine.

Le Mouvement Femmes et Societe[30], the Senegalese section of CAMS (Commission Pour l'Abolition des Mutilations Sexuelles), held an international conference the end of December, organized by Awa Thiam. About 30-50 women from West Africa and Europe participated. On the third day, FC/GM was discussed and a film made in Sudan by Patricia Verhaegen was shown. Several representatives of United Nations organizations in Dakar attended this meeting, which was held in an academic environment. This was the first time that FC/GM was discussed at a public meeting in Dakar.

SIERRA LEONE

In Sierra Leone, the situation is especially difficult due to the fact that excision - practiced in most drastic forms - is done by the secret women societies called "Bundu". Their members are sworn not to reveal what is going on in the "Bundu Bush" - their secret meeting places, where the initiations and operations take place.

Since the secret societies (there are also male societies called "Porro"), have great political influence, no one dares to say anything about their practices, including FC/GM. The Creoles, who oppose FC/GM, are an ethnic minority (repatriated freed slaves). They do not dare to speak on the subject for fear of the secret societies, though many Creoles hold important offices in the Government.

The Ministry of Health is gagged by the secret societies and no "outsider" can say anything about the operations. Only an "insider", that is, someone from a major ethnic group of Sierra Leone, can talk about FC/GM and expect to be listened to.

The health delivery system is concentrated in Freetown, which has good hospitals; for instance the Princess Christian Maternity Hospital. However, in the rest of the country, the infant mortality is staggering: childhood diseases (such as measles) take a terrible toll and malnutrition is very widespread, especially among women and children.

As elsewhere in Africa, ethnic tribal politics are effectively used to maintain the status quo, that is, keep the power in the hands of a few, no matter how damaging for all the rest. In fact, most of those in position of influence have achieved their status because they are members of secret societies: obviously, they will never speak up or they would be instantly expelled.

Secrecy protects all kinds of abuses of power including the most damaging sexual operations; yet it appears that most people, both women and men, are not aware that the operations are the cause of health problems, which are ascribed to the "evil eye", to witchcraft, or other supernatural powers. If a girl dies at her initiation, this is blamed on an evil spirit or even on the girl herself: she did something wrong.

Dr. Olayinka Koso-thomas, the author of the remarkable proposal to "Eradicate Female Circumcision in Sierra Leone"[31] (see Case Histories: Sierra Leone), has for many years served in the Health Ministry and now has a clinic of her own. Her program can only be realized with support of the government. But at present, FC/GM is not even discussed as a health problem; because all facts surrounding the practice are concealed.

Dr. Koso-Thomas is now setting up an interdisciplinary group of recognized health professionals, most of whom have served in their government, to determine the facts and to document the health damage due to FC/GM in irrefutable ways. These facts must then be made public and shown to the people in a way that can be understood, translated into local languages, and communicated in ways that are acceptable to men/women, the vast majority of whom are illiterate. The CBPBs, since they are concerned with promoting healthy childbirth - which is a goal of all families in Sierra Leone where fertility is highly prized - are not controversial. They are adaptable to local needs. The Midwifery School[32] where I showed them to the Principal, Ms. Betts, is planning to use them for teaching, including the CBPB Flip Charts. It is hoped that they will be introduced to more people by this route.

In most of Africa and the Middle East, it is a formidable task to communicate the health problems related to FC/GM to the majority of the people who practice it, given the huge number of ethnic groups involved and their very different attitudes.

One reason FC/GM continues today - as the example of Sierra Leone shows - is secrecy. In no other country is it as difficult to come to grips with the problem as in Sierra Leone because of the secret societies which have stopped all discussion. This inhibits information and education and therefore, all change for action.

In Sierra Leone, most of the people (and the same is true in other African countries) do not even understand the relationship between the operations and the hemorrhaging that may result, causing a girl's death. Because, after all only one girl may die, while the others survive. If the operation were at fault, surely all would be dead. Therefore, the people believe, it was the fault of the girl: she was bad, or she was bewitched. That is why she bled while the others did not. It is all quite clear to the people. And so, the operations go on, protected by secrecy, and no one can change a practice that is concealed and hidden from view.

According to a Peace Corps Voluntteer (PCV) who works in a Mende village as midwife, most women are unable to deliver without episiotomies due to the extensive excision operations that are done on all girls in the rural areas. It appears that sometimes cuts into the vagina are also added, which create more problems at delivery. But, since women are sworn to secrecy, no exact information is available as to what is practiced and by whom.

Without an episiotomy there are bad tears, the Peace Corp midwife related, and after delivery the woman has to be sewn up again. When the baby is not born after a day of labor, the woman is given an herbal medicine, a drug which also effects the baby. Pushing on the woman's stomach is another local method to get the baby born.

The PCV related that she lives with one of the important families in her village; the man has 17 wives though he is only 40 years old. He just acquired two girls from high school, whom he took out of school to marry. Since he is wealthy by local standards, he can afford the brideprice and the parents are glad to have their daughters marry such an important man. Needless to say- the girls are never asked. The PCV stated that the women and their children all live in one long house, opposite the house of the man. He picks out whomever he wants to have for the night and she then must come to his house.

Though the majority of the population is Moslem and theoretically limited to four wives, most men who can afford it seem to have many more, but none of the Moslem leaders object.

Children are very much desired: if a woman does not become pregnant soon enough, the husband will beat her as a remedy. One woman, the PCV said, was repeatedly so badly beaten for failing to get pregnant, that she finally came to the hospital. There, she was examined and it was found that she had had an IUD inserted by a doctor without his telling her!

Tarring and feathering is still done in rural areas as punishment, for instance, for rape. Besides excision, facial scarring is widely practiced. Cauterization is another traditional medical treatment; for instance, the gums of a teething child are cauterized, which is considered a remedy. Cow urine is another widely used traditional medicine. The same remedy, I found, is reported in Nigeria and cauterization is used there as well as throughout the Sudan and on the Arab Peninsula; for instance, the stomachs of babies are branded as remedy against diarrhea: the results are skin infections if the baby survives both treatment and disease.

FRANCE

On my return trip from Africa, I stopped in France. In Summer 1982, Bobo Draore, a three-month old Malian girl, died in the Paris region as a result of an excision operation performed in France: she bled to death. Her father had lived and worked in France for 10 years. The police questioned him repeatedly; finally he was released. The case is being prepared for the courts and no decision has been made at this time.[33]

In another incident, where a little African girl was hospitalized for several weeks as the result of an excision operation which she survived, the case has been brought to court; but no decision has been made. Just before this Postscript went to press in Spring 1983, the news was reported that yet another Malian baby girl born in Paris, had died from an excision operation.

The Ministry of Women's Rights[34], led by Yvette Roudy, has been charged with conducting an investigation into this matter and to document first of all the facts because French officialdom so far has tried to ignore what has been reported time and again by the French feminist press: that the mutilations are being practiced by French immigrants from Africa. Now, with two girls dead and one who nearly died as a result of these mutilations performed in the Paris area, the French authorities no longer can refuse to see the facts. The courts have to prosecute the deaths of the children, which according to French law, are murder.

The time is here when finally no one can hide any longer behind all the euphemisms about culture: female genital and sexual mutilations, according to all international legal definitions, are criminal offenses, and if the girls who are subjected to the operations die as a result, they must be classified as murder.

The Ministry of Women's Rights has also been given the responsibility for making recommendations on what the Government of France should do. A working group has been organized to examine the legal and the health problems, and to investigate the ethno-sociological background. The recommendations and the Report are scheduled to be officially announced at a Press Conference in late Autumn, 1983.

One of the organizations in France that were asked to participate in the above investigations was GAMS (Groupe Femmes pour l'Abolition des Mutilations Sexuelles - Women's Group for the Abolition of Sexual Mutilations)[35], set up in September 1982, which includes a number of African women. GAMS has established the number of African girls "at risk" among the immigrants in France and has developed a proposal for the Ministry of Health. One Recommendation is to sensitize the medical and social personnel working at P.M.I. Clinics (Promotion Maternelle Infantile = Mother & Child Health). Doctor Marie-Helene Franjou, a pediatrician working in the P.M.I. system, as a member of GAMS, is concerned with the health aspects, which are critical.

The French press has extensively discussed the issues involved, which concern the legal status of the immigrant population in France, and they also concern the application of international law, the protection of children and human rights issues worldwide. It is clear that the French Government will have to act . Immigrants in all areas of the world must abide by the laws of the country where they choose to live:to mutilate a child for whatever reason is a criminal offense and this has to be made clear to all immigrants. It is not a "private matter". But it behooves the French authorities to inform all immigrants, upon entering France, that if they wish to live there, they have to abide by French laws or leave.

GREAT BRITAIN

In Britain, a Prohibition of Female Circumcision Bill is under discussion in the House of Commons, as well as in the House of Lords, because the operations have been found to be performed by Harley Street physicians. It appears that it is not illegal for an M.D. to perform these operations, as one of the physicians pointed out who was interviewed by the press. In the Parliamentary Debates, it was pointed out that unless a law was passed, wealthy African men could have their daughters operated in Britain. For instance, in Kenya, the operation is now illegal and anyone performing it, including physicians, risks being prosecuted. Many wealthy Kenyans have their children educated in Britain: there is nothing at present to prevent Kenyan men - many of whom believe strongly in traditions as far as women are concerned - from having their daughters mutilated by British physicians to enhance the brideprice they expect to reap. As this Postscript goes to press, this Bill continues to be debated in Parliament.[36]

SUMMARY

The above is a survey of what I found upon revisiting East/West Africa in February and March of 1983, and an update of the HOSKEN REPORT. It is encouraging that the issue of female sexual operations is beginning to be discussed and recognized as a health concern: there is nothing more damaging than silence and secrecy. To be sure, there are enormous differences between rural and urban areas in Africa. Immigration into the urban areas is greater in Africa at present, than in any other part of the world, and urbanization means change. My visits, by necessity, were mainly limited to the largest cities where change is the order of the day. In rural areas, tradition and the past (which means a static society observing traditions from medieval times) strictly limits all social and personal development.

The first time I visited 15 countries in Africa in 1973, I remember everyone I talked to in West Africa flatly denied that such a practice as female circumcision existed. I had no facts at that stage and I had no choice but to accept what the African women and men told me. This time, no one I talked to denied the facts: however, the male decision-makers in all the health ministries claim "we have other priorities".

Women have little political influence and almost none in the health ministries. Health care in all African and Middle Eastern countries - indeed, in most of the developing world - is a governmental responsibility. Health services are often not available outside cities and large towns, and all clinics and hospitals are overcrowded. What private health care exists, following the Western model, serves only those who can pay for service and who live in urban areas. There are, to be sure, missionary hospitals in some rural areas, but they have little influence on health policies.

There are, of course, a vast number of traditional healers who ply their trade; often assisted by witchcraft of all kinds, magic potions, etc. The results of some of their activities were discussed at the Seminar on "Traditional Practices Affecting the Health of Women and Children" at Khartoum. Though all the delegates tried hard, it was very difficult to find any traditional health activities that could be classified as promoting good health. In the end, breastfeeding was the only one (see "Women and Health"). But the victims of traditional health practices can be found in every African hospital, although only a tiny fraction get there.

The use of medicinal plants of all kinds in Africa is widespread; indeed, it has been admired and studied. But, the active ingredients in plants are subject to chemical conditions in the soil, to rainfall, and to a variety of environmental influences that, furthermore, change from season to season. The active ingredients of medicines made in a laboratory are most carefully controlled. In a plant, the active chemical content depends on environmental conditions; therefore, it cannot be controlled, though any increase in the active chemical may be fatal.

Plants, aside from witchcraft, are the chief ingredients of traditional medicine. The markets in Africa abound in products sold for medicineal purposes including dried snakes and toads, animal feces, pulverized animal organs, quite aside from huge numbers of "magic" amulets to promote anything from fertility to protection from the evil eye. This is a very lucrative trade.

In my view, the answer is not to look towards traditional remedies but to look at the health policies which fail to serve the people. Governmental health policies must be changed: mother and child health, preventive care and health education must become a priority. It will be important to watch what results are achieved in Ethiopia, one of the poorest countries of the world, where hardly any rural health delivery exists. Ethiopia's health policies have been reversed, putting mother and child health, preventive care-and health education first. It seems clear that FC/GM will not be dealt with effectively until and unless mother and child health (MCH) is recognized as the national priority is really is everywhere, and especially in Africa and the Middle East. Because the future of every country quite literally depends on the health of its mothers and children. Yet, women and children have no political influence and therefore, their needs are ignored.

The danger is very real at present that FC/GM will be introduced into hospitals and into the modern health care system. The main factor that deters this is that it costs governments too much money. The operations, of course, go on in the urban areas everywhere: Physicians, midwives, and all kinds of health practitioners make lots of money from the mutilations, much as traditional excisors (see Case Histories: Kenya/Mali) or traditional barbers do (see Case Histories: Nigeria). Even the poorest men seem to be able to have their daughters mutilated. Apparently, it is considered an essential investment for which the father then reaps huge dividends when he sells the daughter to a man, for what is euphemistically called "marriage" but which, in reality, is a relationship not of love or respect, but of bondage and slavery. We must finally disabuse ourselves of the Western notion that marriage is a relationship between a woman and a man based on mutual love and trust, respect and support. As the pages of this Report document in great detail, it is anything but that in the African and Middle Eastern countries discussed here; indeed, the same is true in most of Africa and to be realistic in most of the world. A positive relationship of love and trust is based on equality, and equality has almost nowhere been achieved - as WIN NEWS continuously reports. Yet, inequality - as history shows - inevitably leads to exploitation and violence in personal relationships as well as in the relationships between communities and nations.

There also is a connection that should be researched further, between the economic and social failure of whole societies, and their family structure based on exploitation by the male head of the family. While we declare national and military dictatorships abhorrent, the same kind of dictatorship when it occurs in the family, is considered quite normal: yet, both these dictatorships are based on exploitation and violence and rule out participation and equality.

At present, the transfer of the operations into the modern health system is not openly discouraged by anyone in an official position, except in Kenya where following President Daniel arap Moi's prohibition, all the hospitals were notified. International health programs, as shown again here, fail to speak to the issue and tolerate that the international contributions may be used to mutilate the daughters of the families that the health programs are supposed to serve.

The introduction of THE CHILDBIRTH PICTURE BOOK, with the Additions on Excision and Infibulation, has proven to be a success. Childbirth is not a controversial subject and to teach about healthy childbirth practices is welcome in every society, especially in the strongly pronatalist societies of Africa. The need for safer childbirth is perceived everywhere: to discourage practices that damage healthy childbirth logically follows. The CBPB is appreciated for that reason, even though MCH is rarely considered a priority.

Teaching the prevention of FC/GM must become a part of the process of teaching about positive childbirth and about family health. Even where the subject of FC/GM cannot yet be discussed, for instance in Sierra Leone, teaching positive childbirth by visual methods cannot fail to demonstrate the point that genital operations are damaging.

It is also much more productive to promote something positive instead of prohibiting damaging practices. The CBPB follows that line. And the CBPB has been accepted and appreciated practically everywhere. The next years will be crucial - because only by introducing, adapting and using these educational materials on a mass scale can it be shown how effective they are.

It is a sad testimony for the state of all societies and their male-dominated leadership, that the teaching of our most basic biological and sexual human functions should continue to be obfuscated or ignored, wreaking havoc with the social, mental and physical health of vast segments of all populations, but especially the innocent and ignorant victims mostly women and female children.

My survey trip also again confirmed that African societies are in ferment and urbanization is proceeding faster than anywhere else. It is at this point, when change has already begun, that something new can be successfully introduced. The first step, as I stated over and over, is to break the silence. The next step is to introduce new ideas, to teach about reproductive health and childbirth in ways that are accessible to all people, regardless of language or literacy. That has not been done in Africa before, though Africa has the highest birth rates in the world.

Without teaching the facts about reproduction, we shall never be able to control our bodies, our fertility and our lives. And, for women, this is what it is all about: it is our joint cause, shared by women and men of good will everywhere.

Too much has been said about imperialism, neo-colonialism, racism, and all the other "isms" bandied about in our patriarchal societies. It is very sad to hear too many women repeat the same man-made political slogans, though in truth, women nowhere had any part in the political decisions that were made for them by men. Yet, everywhere, women are the victims who share the same problems and suffering.

We shall only succeed to advance our cause if we reach out across man-made walls of so-called "culture" and so-called "tradition"; walls built by centuries of patriarchal rule that keep us isolated and from recognizing our joint needs and shared goals; that keep us powerless, alone, and dependent on those who build our cage.

We need to recognize that we are women first, before we are white or black; we need to understand that we are female first, before we are African, Asian, European or American. We have to learn that the bonds of being female and the suffering and denigration that this word still implies - indeed the mutilation of our essential being that is documented once more here - all this is stronger than the divisions dictated by centuries of male control over our bodies and our lives.

Only when we reach out in compassion across all the false divisions, only than shall we prevail as women, and prevail we must, in the face of growing male violence and war: the future of our children - girls and boys - depends on it: indeed, the future of life on this earth!

FOOTNOTES

1. World Health Organization, Office of Family Health, 1211 Geneva 27, Switzerland (Dr. Angel Petros-Barvazian, Director / Dr. Robert Cook, Sr. Medical Officer).

2. "Enaba, Aziza wa Abeer: Documentary 1980"; film produced by Dr. Laila Abou Saif, 19 Gamal Al-Din Abou-Al, Mahassan, Garden City, Cairo, Egypt (see WIN NEWS VII-2, Spring 1981, p. 34).

3. Coordinator on Female Circumcision: Mrs. Aziza Kamel Mahmoud, 9 Abdel Aziz Sedim St., Docki, Cairo, Egypt (or contact via Cairo Family Planning Organization, 50 Gomhouria St., Cairo). See also WIN NEWS, IX-2, Spring 1983, pp. 51-52.

4. "Project on Combatting Female Circumcision" submitted by Middle East Council of Churches, Dept. of Education (Women's Programs), 1127 Corniche El-Nil Street, P.O. Box 35, Nasr City, Cairo. (Dr. Maurice Assad, Assistant Sec.-Gen.). See also WIN NEWS, VII-1, Winter 1981, p. 37.

5. World Health Organization, Eastern Mediterranean Regional Office (EMRO), P.O. Box 1517, Alexandria, Egypt.

6. See WIN NEWS IX-2, Spring 1983, pp. 15/16.

7. EL DAREER, ASMA. Woman, Why Do You Weep? Circumcision and its Consequences, Zed Press (London), 1983. See Book Review in WIN NEWS, IX-2, Spring 1983, pp. 60/61.

8. EL DAREER, ASMA. An Epidemiological Study of Female Circumcision on the Sudan. (Thesis submitted for degree of M.Science in Community Medicine at University of Khartoum, Dept. of Community Medicine, Faculty of Medicine, 1980/81). See also WIN NEWS VII-2, Spring 1981, p. 36.

9. Dr. Obeida Magzoub Alawi, Director, Health Education, Health Ministry, P.O. Box 205, Khartoum, Sudan. (See also WIN NEWS, IX-2, Spring 1983, p. 17 - Interview).

10. Babiker Badri Scientific Society, c/o Ahfad College for Women, P.O. Box 167, Omdurman, Sudan. (Dr. Gassim Badri, Director). See also WIN NEWS IX-2, Spring 1983, p. 18.

11. "Rural Health Support" Project #650-0030 ($18,063,000) sponsored by U.S. AID, Dept. of State, Washington, DC 20523. See WIN NEWS, IX-2, Spring 1983, p. 53.

12. Dr. Tewabech Bishaw, Director, MCH Coordinating Office, Ministry of Health, P.O. Box 1234, Addis Ababa, Ethiopia. See also Interview in WIN NEWS, IX-2, Spring 1983, p. 22.

13. R. Padmini, Permanent Representative, UNICEF, P.O. Box 1169, Addis Ababa, Ethiopia (see Interview in WIN NEWS, IX-2, Spring 1983, p. 21).

14. "SHDS (Strengthening Health Delivery Systems) Program", sponsored by WHO and US/AID, Dept. of State, Washington, DC 20523. Implemented in 20 countries in West and Central Africa ($25,000,000).

15. SOMALI WOMEN DEMOCRATIC ORGANIZATION (SWDO), P.O. Box 1740, Mogadishu, Somalia (Ms. Murayo Garad Ahmed, President; Ms. Batula Hassan Ali, Secretary for Foreign Affairs). The SWDO is a political organization and part of the government. Its elected president is a member of the highest governmental council.

16. "Rural Health Delivery" Program, sponsored by U.S. AID (Project #649-0102 - $14.5 million/implemented January 1979). Health Coordinator: Mr. Charles Habis. Mission Director: Mr. James Kelly, c/o U.S. Embassy, Mogadishu, Somalia. Contractors: Medical Service Consultants, 1716 Wilson Boulevard, Arlington VA 22209 USA.

17. Dr. J. G. Kigondu, Director, Medical Training Centre, Ministry of Health, Kenyatta Hospital, P.O. Box 30195, Nairobi, Kenya.

18. Family Planning International Assistance, 810 Seventh Avenue, New York, NY 10019. Funded by US/AID.

19. Medical Women's Association of Nigeria, Attention: Dr. Muriel A. Oyediran, National Secretary, Dept. of Community Health, College of Medicine, University of Lagos, P.M.B. 12003, Lagos, Nigeria.

20. International Medical Women's Association Annual Congress, Manila, November 1982. Recommendation #6 reads as follows: "It is recommended that the MWIA should become actively involved in the abolishment of ritual female circumcision/ genital mutilation and should draw the attention of WHO and that of other organizations to the negative results of these operations on the physical and psychological health of the affected women. It is further suggested that educational measures should be undertaken in affected countries to abolish these practices."

    For further information, contact the MWIA at their Secretariat: Weihburggasse 10-12, A-1010 Vienna, Austria // also contact: Dr. Helga Thieme, Past-President MWIA, Karsten-Balder-Steig 17, 3380 Goslar 1, West Germany.

21. Federation des Femmes Voltaiques, B.P. 1159, Ouagadougou, Upper Volta.
22. Midwifery Training School, National School of Public Health, B.P. 7002, Ouagadougou, Upper Volta (Mme. Binta GUINDO, Director).
23. WERNER, DAVID. Where There Is No Doctor: A Village Health Care Handbook, Hesperian Foundation (P.O. Box 1692, Palo Alto CA 94302), 1977.
24. Union National des Femmes du Mali (UNFM), B.P. 1740, Bamako, Mali. (Mme. Dicko, Secretary-General).
25. P.M.I. Central (Promotion Maternelle Infantile), B.P. 1621, Bamako, Mali (Dr. Liliane Barry, Chief, Division of Family Health).
26. "Rural Health Delivery" Project, sponsored by US/AID. Dr. Peter Knebel, Regional Public Health Adviser (Sahel Development Planning), B.P. 34, c/o American Embassy, Bamako, Mali.
    Contractors: Harvard Institute for International Development (HIID), 1737 Cambridge St., Cambridge, MA 02138 (Dr. Richard Cash, Director).
27. INTRAH (International Training in Health), University of North Carolina, University Square, Chapel Hill, NC 27514 USA.
    The International Health Programs, 210 High Street, Santa Cruz, CA 95060, are under contract with INTRAH.
28. World Health Organization, c/o UNDP, B.P. 120, Bamako, Mali. (Dr. Diop, Resident Representative).
29. Hospital Dantec, Midwifery Training School, Building Administratif, Dakar, Senegal (Mme. Emilie Gomis, Directrice Adjointe).
30. Le Mouvement Femmes et Societe, Dakar Section of CAMS Internationale, (Commission Against Sexual Mutilation), Villa 811, Sicap Baobabs, Dakar, Senegal (Awa Thiam, Coordinator).
31. KOSO-THOMAS, OLAYINKA, M.D. "Proposal to Eradicate Female Circumcision in Sierra Leone", dated March 16, 1981. (Address: 20 Circular Road, Freetown, Sierra Leone).
32. Midwifery School, Princess Christian Maternity Hospital, Fourah Bay Road, Freetown, Sierra Leone (Ms.K.G.A. Betts, Principal).
33. See WIN NEWS VIII-4, Autumn 1982, pp. 36/37.
34. Ministry of Women's Rights (Ministere des droits de la Femmes), Secretariat d'Etat, 53 avenue d'Iena, 75116 Paris, France. (Mme. Yvette Roudy, Minister).
35. Groupe Femmes Pour l'Abolition des Mutilations Sexuelles (GAMS), Maison des Femmes, 8 Cite Prost, 75011 Paris, France
36. See WIN NEWS IX-2, Spring 1983, p. 66.

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the Humanist
JANUARY/FEBRUARY 1984

A CRUCIAL NEW DIRECTION FOR INTERNATIONAL FAMILY PLANNING

Only when women worldwide have access to information about themselves can superstition and ignorance—whether ancient or modern—be overcome and population growth rates reduced.

Fran P. Hosken

One critical fact still seems to be ignored by most of the international family planning establishment in all parts of the world: whenever and wherever women have access to education that can prepare them to make decisions about their own lives, childbearing decreases rapidly. In the ongoing political debates on family planning, women's needs and human rights have been quite ignored. It is each woman's right to have access to contraceptives and also to the essential and crucial information about reproduction and her own body's fertility and sexuality.

The basic human right of every person to choose, to decide freely, based on biological and factual information, whether or not to have children, continues to be denied to a very large number of women. The vast majority of women in the developing world have no such options, especially in the huge areas of Africa where population growth rates at present are rapidly increasing even though famines and recurring droughts threaten the survival of whole populations of the continent.

The positive correlation between education of women and reduction of births was already documented in 1974 in the publications by environmentalist Lester Brown, which he distributed at the U.N. Population Conference. But when Brown came to Bucharest to speak at the two-day preparatory press seminars, held prior to the conference for assembled journalists from around the world, he ignored the subject of women. He evaded my question when I asked about his failure to say anything about the role of women's educational status in relation to population growth. These facts were clearly visible in all statistics, including those Brown had published himself.

Unfortunately, environmentalists and population planners continue to evade the issue, despite the price paid for this omission: the failure of many family planning programs due to neglect by population planners to act on the plainly visible facts that births decline in proportion to the education of women. These facts are borne out historically, as is confirmed by an examination of the demographic statistics for Europe during the past one hundred years. The same facts can be observed at present in the developing world.

"DEVELOPMENT"

It is worth noting here that the correlation between "development" and population control was internationally discussed for the first time also at the U.N. World Population conference in Bucharest. Under intense political pressure by some of the delegates of the poorer developing countries, who began to talk about genocide, the representatives of donor countries—especially the United States—conceded that "development" was an essential ingredient of successful family planning; that is, coordinated with population control programs, economic development programs would be financed. All kinds of research was presented to show that a reduction of birth rates occurs only after a certain level of economic development is achieved. But not one word was said to show the far more convincing and clearly visible correlation between the educational status of women and declines in population growth rates. These facts are available to anyone who wishes to see them, literally everywhere in the world. But no matter how obvious, they continue to be ignored even today by most population experts and their funding sources, especially the U.S. Agency for International Development (U.S./AID). In countries in which women as a group have access to education, both population growth rates as well as infant mortality noticeably decrease; in turn, within each society, women who have access to education and factual information about reproduction manage to reduce the number of their pregnancies substantially in comparison with their uneducated sisters.

To be sure, in the poorest countries of the world—for instance, in much of sub-Saharan Africa—infant mortality is so high that often more than half of the children die before reaching the age of five. But what is seldom pointed out is that maternal mortality rates are equally staggering. Indeed, it is the poor health of the mother and her continued childbearing that is one reason for the huge infant mortality; most often, infant mortality is the result of low birth weight, as World Health Organization statistics confirm. Many women go through fifteen to twenty pregnancies before they reach forty, unless they die from childbearing first.

It is astonishing how little attention has been paid by the international population planners to these facts. Why, one wonders, have the powerful, well-funded, international family planning proponents ignored the obvious statistics? Most importantly, why are they ignoring the crying needs of women; indeed, women's right to be informed about their own bodies, reproduction, and health?

What is more, education of the female half of humankind is lagging everywhere, according to all statistics by the U.N. Educational, Scientific, and Cultural Organization (UNESCO)—but especially in the poorest countries of the developing world, precisely those that have the highest birth rates. UNESCO statistics also show that the gap between the education of males and females is widening steadily in many countries, especially in the Moslem societies of Africa, with terrible consequences for the health of each new generation and the quality of life of each family.

One must ask: How can a woman teach her children something she has never been given the opportunity to learn? Yet, the basic knowledge of each society, especially in the developing world, is transmitted through the family, and this is especially true for the traditions concerning marriage, reproduction, and sexuality which determine the status of women. This determines how a woman's reproductive capabilities are used and whether or not she has any say in these vital decisions.

> The reason family planning is failing in Africa is obvious: every African man seeks to confirm his ego and his manhood by fathering as many children as possible, and male sexuality is completely out of control.

In *WIN News*, for which I work as editor, the issues shared by women in all parts of the world are emphasized. Health is a priority of women in all societies, and, of course, so is self-control of our fertility. Without the human right to control one's body and without the necessary information to do so effectively, development remains an illusion.

On a recent survey trip to eleven countries in East and West Africa, most of which I had visited several times before, I investigated again the health conditions of women and girls—including their access to information on family planning. In hospital after hospital, whether anglophone or francophone, the same problems were stated by the midwives with whom I talked. Women start childbearing often when they have barely reached their teens and go through one pregnancy after another, suffering progressively from anemia. Yet, of course, how to prevent anemia is no secret at all and requires no expensive treatment. What women need is the same everywhere: an ample, iron-rich, high-protein diet; spacing of pregnancies to enable their bodies to recover; and reasonable rest from the heavy physical labor in the fields and at home—especially in the later months of pregnancy. While women's health is ruined from too frequent pregnancies and from overwork, unemployment of men is cited everywhere in Africa as a major constraint to "development." In most towns, one can see men who have left the villages and their families, hanging around in groups with nothing at all to do, often drunk. What little they earn, they spend on alcohol instead of on their children. They visit their villages usually only once a year to eat the food grown by their wives and to father another child.

HEALTH AND MALE EGO

It appears that family planning is making no progress in the East and West African countries I visited, despite the fact that more and more money is spent in Africa by international family planning organizations. Kenya has a well-functioning health delivery system in comparison with other sub-Saharan African countries; Kenya at present also is setting a world record in population growth despite the fact that family planning organizations have been active there for years. The chief reason why population growth is not soaring in many other African countries (the growth rate is increasing everywhere in Africa) is because infant mortality is horrendously high. It is admitted to be about 50 percent in many countries, including Mali, Upper Volta, and Sierra Leone. Some people claim that in reality it is much higher among the rural populations, but there are no reliable statistics available.

In Kenya, the average for each woman now is 8.3 live births. The population growth rate is well over 4.3 percent, which is due to improvements in the health system and concomitant reductions in infant mortality. With modern health systems beginning to reach more areas of Africa, population growth rates will steadily increase.

The reason family planning is failing in Africa is really quite obvious: every African man seeks to confirm his ego and his manhood by fathering as many children as possible, and male sexuality is completely out of control—not female sexuality as claimed by proponents of female circumcision and genital mutilation.

Nowhere is it even mentioned that family planning is a responsibility of males. African men have been ignored by family planning programs. Indeed, men are deemed not responsible for the support of their children in most traditional African societies, and this is one custom that has not changed in the modern sector or in urban areas; nor do family planning organizations say anything on this subject. The enormous burden and responsibility for children rests mostly on women almost everywhere in Africa. The failure of men to support the many children they father is entirely ignored, though this is one major cause of the failure of all family planning programs.

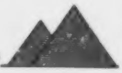
There is no hope for change in settings where women are illiterate (often more than 90 percent) and the chattel of men. The brideprice, which is still a requirement and custom almost everywhere in Africa, is nothing more than a sale price for women's bodies and fertility, whereby the father—the male owner of a girl—sells his daughter to the highest bidder. To assert his manhood, the purchaser wants to get his money's worth: as many children as possible.

Women are prevented by tradition, which is often supported in the modern sector by international programs, from owning land or property. Yet, access to land in agricultural societies is essential in order to survive and feed one's family. But access to land is reserved for the male head of the family. As a result, women are the property of men and must do what men require. And men require children—the more children a man fathers, the more important he believes himself to be. Yet, he assumes no responsibility for feeding them. Polygamy continues to be practiced all over Africa with the result that men hardly know their many children. Also, divorce—especially in Moslem societies—is very frequent. Important men set the example by having dozens of wives in succession, continuously divorcing the older and infertile ones. Infertility is a frequent cause for divorce.

WHO WEARS THE TROUSERS?

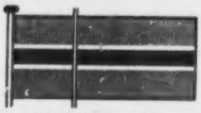
In 1972 it was estimated that

IN EGYPT
264,000 families
lived on the
earnings of women



IN KENYA
525,000 rural
households were
headed by women

IN BOTSWANA



one - third of all households
were headed by women

It is astounding that the international family planning organizations, although spending millions on family planning in Africa, have entirely ignored these facts. Polygamy, as well as the failure of men to face their responsibilities for their children, are nowhere even mentioned by the international family planning establishment as reasons for the burgeoning population growth rates. Unilateral divorce, which means that a man can throw out his wife and children anytime (and take another wife) is also universally ignored in the family planning literature. Family planning programs in Africa are still almost entirely directed toward women, while men—the real cause of the population growth rates—are never made to face the reality of their obligations. As some midwives who give out contraceptives to women in the hospitals in Bamako told me, if a man finds his wife using contraceptives, he often not only beats her but also may divorce her.

REDUCING IGNORANCE

Everywhere in the world a correlation can be made between the education of women and the reduction of pregnancies. It would seem more productive for family planning organizations to finally address the education of women and especially health education; however, the basic facts about reproduction continue to be entirely unknown to most African women while childbearing and fertility is surrounded by many damaging myths, traditions, and taboos. Family planning organizations, as my recent investigations in Africa once more confirm, have done almost nothing to lift this ignorance that keeps women in bondage and destroys their health.

Even where family planning is now organized in Africa, it is not based upon education of women but rather upon persuading women to accept and use contraceptives. Most of these women are unable to understand how birth control devices really function, what their choices are, and what is good or bad for their health. Rather, they are persuaded to follow blindly the advice of Western male white family planning physicians or contraceptive manufacturers who know little about the women's lives but who profit from the distribution of the contraceptives.

It has become fashionable for family planning organizations to consult anthropologists, whose advice invariably is: "traditions must not be disturbed." That is, women and girls are kept in ignorance about the real facts concerning their bodies and reproductive functions. They continue to believe the most damaging myths—damaging to their own health and to their children—indoctrinating the same dangerous beliefs. Many traditions are, furthermore, entirely incompatible with the national goals of development that include the objectives of reducing population growth rates.

The pill, IUDs, or injectable contraceptives are given to women who have no idea about the basic, biological facts of reproduction, even though they may have ten or more children. Surely it must be obvious by now that, unless and until women are educated so that they can choose how to control their own reproductive capacities, family planning will not succeed—least of all in Africa, given the attitude of men.

As the midwives in one of the West African hospitals told me, "Everything must change; women must take their rightful place in all decisions; the whole relationship between women and men must be changed. Men must recognize that we are human beings like they are." The means to that end is education, especially education for women and girls, who must be taught first of all what we call "the facts of life."

My reason for going to Africa again at the beginning of 1983 was to introduce the *Universal Childbirth Picture Books*, which are now available in English, French, and Spanish (an Arabic translation is in preparation). These books are addressed to the community health worker for use in teaching the basic facts of reproductive health, regardless of language or literacy. They are designed as flexible, graphic teaching aids that can be readily adapted to local needs. Their objective, in summary, is "to make the human story of how we are made available to the largest number of people all over the world."

The multi-ethnic pictures, which by now have been tested in all parts of the world, and especially in Africa, are readily understood everywhere, according to the letters and evaluations we have received. The picture books were developed and designed with the conviction that all people have a right to information about their own bodies and sexuality and that it is possible to teach the facts of life in simple, straightforward, and easy-to-understand ways—regardless of culture, background, or literacy. Since all of us, everywhere, are made according to the same biological rules, it stands to reason that all of us, everywhere, can learn to understand the reproductive facts that govern our lives.

> If the biological facts that form the basis for understanding family planning are not thoroughly absorbed, they are not transmitted from generation to generation.

My investigations in developing countries unfortunately show that, contrary to what one might believe, international family planning organizations have failed to make the information about reproduction accessible in easily comprehensible form. Before developing the *Universal Childbirth Picture Books* program, I thoroughly researched what was available worldwide on this subject, expecting as many do that such educational materials would be plentiful after years of highly funded international efforts to propagate family planning. But I was wrong. While there are all kinds of sophisticated teaching materials on how to use and introduce contraceptives, I could not find a comprehensive, simple, graphic representation of the reproductive process as seen from a woman's view. If the biological facts that form the basis for understanding family planning are not thoroughly absorbed, they are not transmitted from generation to generation, especially if traditions teach the opposite and propagate all kinds of myths. The work of Margaret Sanger and other women leaders in this field has never reached women and families in the developing world, where a sympathetic and humane approach is very much needed.

WIN News began publishing the *Universal Childbirth Picture Books* in 1981; by now, thousands of these books have been sent to all parts of the world. After asking all users for evaluations, our experience shows that they are highly appreciated on the local level and understood also by illiterate village women. The greatest handicap in distributing these teaching materials to those who need them are the prejudices by the international organizations who, time and again, led by their male medical advisors, claim that "these books are not acceptable to the local culture in developing countries," as if women in different parts of the world were not human or had different genital organs than women in the United States and the West. It was

CONTINUED ON PAGE 45

Fran P. Hosken, editor and publisher of Women's International Network News (WIN News), *is a specialist on urban-international affairs and women's development worldwide. An architect, she is a graduate of the Harvard Graduate School of Design, a teacher of urban studies, and a consultant on international development and modernization. She is a world leader in furthering technical assistance to integrate women in development and in promoting women's economic rights. Her books include* The Function of Cities, The International Directory of Women's Development Organizations, *and* The Hosken Report: Genital/Sexual Mutilation of Females.

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Winter, 1984

THE CHILDBIRTH PICTURE BOOK (CBPB) / PROGRAM
EVALUATIONS BY USERS

THE UNIVERSAL CHILDBIRTH PICTURE BOOK

76 Pages; 8½" x 11" (standard letter size).

Addressed to the community health worker/educator worldwide as a flexible, adaptable, multi-ethnic teaching aid: 34 full-page drawings with short captions; usable as flip chart for small groups.

With separate Text; Teacher's Discussion Guide; Picture Glossary of Technical Terms, International Reading & Resource List; Multi-ethnic Photographs.

The cover of the UNIVERSAL CBPB is removable; all the inside pages are hole-punched; the drawings and written materials can be used separately and are easily adaptable by the presentor to local needs. The simple and clear language makes it easy to translate.

ADDITIONS ON PREVENTION OF EXCISION AND INFIBULATION (Female Circumcision/Genital Mutilation (FC/GM)

Includes Drawings, Text, and Discussion Guide. Available in English and French (free) for Africa/Middle East.

TRANSLATIONS OF THE UNIVERSAL CBPB (Available from WIN NEWS)

LE LIVRE D'IMAGES UNIVERSEL DE LA NAISSANCE (with French Reading/Resource List)

EL LIBRO UNIVERSAL DE ILUSTRACIONES DEL PARTO (with Spanish Reading/Resource List)

ARABIC TRANSLATION AVAILABLE SPRING 1984.

THE CHILDBIRTH PICTURE BOOK (BASIC BOOK)

60 Pages; 8½" x 11" (standard letter size)

Same Drawings with Text underneath each picture; Picture Glossary of Technical Terms; short Discussion Guide; Reading & Resource List of USA Publications; multi-ethnic photographs/drawings.

CBPB FLIP CHART

Coordinated with the books (same Drawings/English captions). Size: 17" x 22" (4x book size).

CBPB COLOR SLIDE PROGRAM

34 slides, same Drawings, with color added.

Separate Text and Discussion Guides are shipped with both the FLIP CHART and the COLOR SLIDE PROGRAM, available in English, French and Spanish.

PROPOSALS FOR TRANSLATIONS / ADAPTIONS OF THE UNIVERSAL CBPB

WIN NEWS offers technical assistance, coordination, and consulting services with adaption/translation, including development of special graphics and text. We offer a copyright agreement free for that purpose to protect the books from commercial use.

The book has been locally translated into TAMIL and published in Southern India (edition of 5000) by the Rural Women's Social Education Centre, Chingleput, Tamilnadu.

An ARABIC translation was prepared for the Ministry of Health in Egypt, who are planning to also print and distribute it in Egypt.

The FLIP CHART was translated into AMHARIC by the Ministry of Health of Ethiopia, and printed.

EVALUATIONS AND TESTS

The evaluations cited below are excerpts and summaries received in response to letters and specific questionnaires sent out with free copies of the books and flip charts. In addition, "Comprehension Tests" were developed in Autumn 1983 and sent out in English/French/Spanish: these tests are to be used in structured programs.

Priority has been given to distribution in Africa in countries (both Anglophone and Francophone) where FC/GM is practiced (see evaluations). The distribution in East/West African countries affected by FC/GM has been greatly promoted by my visit of 11 countries in February/March 1983 (including Health Ministries, Hospitals, Midwifery Schools, Family Planning Organizations).

Training of Trainers in the use of the books/teaching materials should be organized where they will be utilized on a large scale. Outlines for training programs are available from WIN NEWS - to be adapted to local needs in collaboration with local users.

WOMEN'S INTERNATIONAL NETWORK NEWS

REGION-BY-REGION CBPB EVALUATIONS

MIDDLE EAST AND AFRICA

(All books sent to areas affected by FC/GM were sent with Additions to Prevent FC/GM).

EGYPT

Ministry of Health, Family Planning Project, found the books so useful they asked to have the UNIVERSAL CBPB translated into Arabic (contact Dr. Moshira El-Shaffie): this is in process now, funded by the U.S. Agency for International Development (US AID).

The Cairo Family Planning Association (private) are testing the books in their programs and wrote that they have made some text translations (into Arabic) of the books for their own use, including the Addition on Prevention of Excision.

The Christian Association of Upper Egypt (Cairo); Simone Tagher and Safwat Sebeh, Coordinators, wrote that they adapted the book, including the Addition to Prevent Excision, and also translated it. The adaptions (sample sent) consist in changing the facial features and other minor alterations. The Association wrote they were still working on adaptions/tests prior to introducing them for teaching.

BAHRAIN

Bushra Jabre, Team Leader/Advisor in Family Planning, writes "we have received the UNIVERSAL CBPB Flip Chart and have used it in our family life activities. It has proven to be very helpful." The Text was translated locally and social workers were trained to use the books.

ETHIOPIA

UNICEF ordered a sizeable number of Flip Charts and books two years ago which were distributed to: the Medical School / IFLE / Ministry of Health, MCH Division (Dr. Tewabesh) / the Ethiopian women's organization / Ethiopian youth organization / Ministry of Education / Ministry of Agriculture / Family Guidance Association. Several responses were received by UNICEF and forwarded to WIN NEWS:

> The Nursing School wrote that they are making good use of the flip charts; the MCH Div. of the Ministry of Health found our materials so useful that the flip charts were adapted (faces Ethiopianized) and printed (5,000 copies) with Amharic captions for TBA training; the Urban Development Program, supported by the Norwegian Save the Children Federation, wrote that the charts are of great value in all training and MCH programs.

OXFAM: The Oxfam/Ethiopia Project wrote that they are using the CBPB for teaching their team of "moniteurs". They stated, "it is quite clear the trainees understood it. . .it is gratifying to find that the drawings are comprehensible to people who don't often see pictures."

Sr. Hildegard Hege of Attat Hospital-Gurage writes: "The CBPB has been used in teaching of different groups, as well as on an individual basis, in service training for health workers here in the hospital and in teaching Traditional Birth Attendants. Also, the book is being circulated through our library. I was teaching the first group. The pictures and the text are very clear and the English is simple and therefore, could be easily used. . .the knowledge of English by the students is very poor. The glossary with the illustrations is also very helpful."

Sr. Hildegard Hege continues that she is planning to use the books for sex-education, for the Ante-Natal Clinic and Post-Natal Clinic, which also includes family planning (to be started soon): "Regarding female circumcision: the pictures 35-42 (--these are the pictures of the Addition to Prevent F.C.--) helped us to start a discussion again. . .yet even our employees are not yet convinced that this custom is mutilating. . .they still insist (fortunately not all, anymore) that an uncircumcised girl will not be able to find a husband." And she adds that she tries hard to include something on the "injustice towards women" in all her teaching.

KENYA

African Medical and Research Foundation (AMREF). Several CBPBs were given to their library. Flip Charts (donated) and books are also used for TBA training. Mary Memia, the midwife in charge of the TBA Training Project, writes:
"The book has been very useful especially to the trainers of TBAs whom we train. It is simple and gives clear and brief explanations. As for the Flip Chart, I have mainly used it to demonstrate to the TBAs about pregnancy and childbirth. I am glad to say that the TBAs have been able to understand the pictures without problems. It is a very good and useful visual aid. I strongly feel that if we could have more copies they would help. . .the trainers have actually been asking if they could have their own copies of the book and flip chart. The trainers are from all Districts in Kenya. . ."

School of Nursing, Kisii Hospital, "Rural Health Project" : a teacher wrote that the book is "being used to prepare student nurses (male and female) who colored the drawings to make the organs easier to identify: A very deep interest was taken by the students. . .the pictures are very well related."

MALAWI

The midwifery tutor from Malamulo Hospital, Makwasa, wrote that the book was used to teach midwives how to teach pregnant women and was found to be very useful for that purpose.

MADAGASCAR

The Health Advisor from Malagasy Lutheran Church, Antananarivo, wrote: "Our initial reaction here at our national staff is very favorable. . .and the CBPB should be able to be adapted to local teaching programs for village health workers."

WOMEN'S INTERNATIONAL NETWORK NEWS

MIDDLE EAST AND AFRICA

ZAMBIA

The Principle Tutor of the Macha Mission Hospital, Choma, (Zambia Enrolled Training School), wrote that "we are using the UNIVERSAL CBPB as a visual aid (and the flip chart) for the teaching of young Zambian girls in a two-year nurses' training program."

NIGERIA

Mrs. Adegoroye of Lagos writes that "the picture books on excision and infibulation are excellent and can be used for all types of groups."

Mrs. E.O. Ogbe, Director/Coordinator of the Bendel Association of Family Life Education, Benin City, and Executive Director of Edo Health Care Organization, writes that "the UNIVERSAL CBPBs are very useful in teaching the mother's classes and the auxiliary aid (health aide) students." The books were also used for a cooperative learning/teaching program for TBAs. Mrs. Ogbe, who has been sent more than 30 books, including the Additions to Prevent FC/GM also filled out the numbered questionnaire stating that the books have been used in more than 50 meetings in groups of 50-200 women/men, and that the students actively participated in discussions including on circumcision prevention.

SOMALIA

The WHO Nurse Adviser, Khin Mu Aye, Mogadishu, ordered Flip Charts and books, and wrote that they are being used in the Mogadishu School of Nursing for teaching student nurses who have to learn midwifery during their training. They are also used to teach TBAs and primary health workers.

Interchurch Response, Refugee Health Unit, is using the books with the Additions to Prevent FC/GM, working in the Refugee Camps in Somalia. The books are used for a training program of 35 male nurses of the Somali Government Refugee Program,according to a letter from Interchurch Response; additional copies of the books were ordered with the letter,.

MALI

National Women's Organization of Mali (UNFM), Bamako. The Secretary-General writes: "All our comrades of the National Executive Bureau appreciate your book. Its usefulness is quite apparent to everyone, especially for the purpose of educating our members of the National Union. We ask you to please send us at least 200 books, which we shall distribute between the 52 sections of our organization."

Mme. Aissata SISSOKO, Directrice of the Midwifery School, wrote (translated from French) that the CBPB is very useful in training their students, especially those who, in turn, will be teaching community health workers. All the students are required, as part of their training, to spend 45 days in a rural area and have to practice-teach health education and nutrition. The book is very useful for that purpose and they shall test it specifically as soon as they receive more copies. The community health workers, in turn, teach pregnant women who come to the clinics. "You can be sure this book will be well used".

UPPER VOLTA

Dr. Antoine KABORE, Director of Public Health, Ministry of Health, to whom I gave a book during my visit to Africa in 1983, and to whom I sent additional books on return, wrote (translated from French): "I have discussed the use of the books with my colleagues and we find it is very useful. It fills a great void of teaching documents to train basic health workers for rural environments who are frequently illiterate. It also fills a gap for basic training materials as prerequisite for professional education. We find the UNIVERSAL CBPB is easy to understand and useful for sex-education of both adults and adolescents. We would like to have more books to use them for training of traditional midwives and other health workers."

Dr. Joseph KABORE, Head of Obstetrics, Yalgado Hospital, wrote (translated from French) that the book will be most useful in his battle against excision which he has continued for many years. We are exploring methods of sending more books to him in larger quantities.

Mme. Jacqueline TAPSOLA, Head of the newly-formed Family Planning Organization of Upper Volta wrote (translated from French) that she would like to have additional books and that their Association is certainly working to contribute to the physical, mental, and moral health of families in their newly opened family planning clinic. She sent back one of the questionnaires and said that the book is especially useful for the urban population who are more used to pictures. She adds that "in general, the book is very open and easy to adapt to local needs and customs; it is simple and complete and indispensable for our work".

Mme. Edwin DUBISZ, Mission Protestante, Fada N'Gourma, writes: "I like your pictures because they are clear, uncomplicated and easily understood by an illiterate person. These ladies are very intelligent but they have had no occasion for learning with a book. . .We are working in a village health project in 23 villages in the Eastern area of Upper Volta. . .the program is geared to self-help and self-support. . ."

LIBERIA

Ms. Dodson, M.L.B.M. , Monrovia,writes: "I have found the book and the Addition on Female Circumcision to be highly useful in teaching our Liberian ladies. The pictures and the text are easy to understand. The women I taught had no problems understanding the drawings. . ."

ASIA AND PACIFIC

CBPB EVALUATIONS -4

FIJI

Valelevu Health Centre, Suva: Mrs. Litea Veturu writes: "Student nurses comment that they really appreciate it and its simple words and understand it. The pictures are really meaningful to them."

INDIA

The Rural Women's Social Education Centre, Chingleput, South India translated the CBPB into Tamil and reprinted 5,000 copies. Sundari T.K. writes: "Let me take this opportunity to tell you how much we appreciate the work you are doing especially through the CBPB. The translated Tamil version of the CBPB is being very well received in the villages where we, of Rural Women's Social Education Centre, are doing health education with women. In fact, we received requests from adolescent girls in these villages to conduct workshops based on the CBPB for them. . .In our experience we have found that the pictorial presentation of facts related to childbirth is very effective with rural women. . ."

BANGLADESH

Gonoshasthaya Kendra, Peoples Health Centre, Dacca, were sent several samples. Dr. Z. Chowdhury, Project Coordinator wrote: "We are very much interested to receive 10 copies of the UNIVERSAL CBPB for our various departments and centres. This is a very useful book. We like to translate this book into Bengali and serialise it in our Bengali monthly magazine, "Gonoshasthaya", which has a circulation of 20,000. . ."

PHILIPPINES

Romanita Kanapi, Quezon City, conducts classes in childbirth education. She writes: "It is a very clear visual aid. . .and makes the students really aware of the processes of reproduction." Mrs. Kanapi expressed interest in having colors added.

LATIN AMERICA AND CARIBBEAN

TRINIDAD

Mr. Abass. Ali, M.S.F., A.CI., A.M.T.I., writes: "The UNIVERSAL CBPB is first class for teaching plan and program. . ."

COSTA RICA

Good Will Caravans, San Jose: Lillian Solt DiValentino, Nurse/Midwife, holds classes for training in Maternal Child Care, Family Planning, and Childhood Diseases. She writes: "The drawings are excellent, very clear, and simple to understand." Mrs. Solt DiValentino adapted the CBPB into a much more extensive syllabus of which she sent us a copy. She wrote she was just beginning to use this syllabus.

SURINAME

Stichting LOBI, Buro Voor Verantwoord Ouderschap en Seksuele Voorlichting Paramibo, Rosemarie Pelser, Director, writes: "The pictures in the book are easy to understand and explain. . .we have used the book especially at our counseling department. . .If possible, we like to receive more books. We want to use them in the regular meetings we have with groups of about 15 pregnant women of a women's organization and in the prenatal policlinic of two hospitals. . ."

BRITISH WEST INDIES

T. Seatliffe, Sr. Public Health Nurse, Tortola, writes: "I have a copy of the CBPB. I am fascinated by this book; it is the type of teaching material I need. . ."

BERMUDA

Department of Health, Ms. Jacqueline Lightbourne, Chief Nursing Officer, writes: "The CBPBs are being utilized by our nurses and other allied health personnel. . .The UNIVERSAL CBPBs have proven to be very useful in our family life education programme. . ."

HAITI

The Family Planning Organization of Haiti serialized the UNIVERSAL CBPB in their Newsletter, adapting the facial features of the women and translating the text into French (this was done prior to the publication of the French edition available from WIN NEWS).

MEXICO

From The Hesperian Foundation (Palo Alto, CA), which works in Mexico, David Werner writes: "Many thanks for sending the copies of El Libro Universal de Ilustraciones del Parto in Spanish (and the French edition). It is very well presented, and will be very useful. . .as teaching tool. . .The clear, simple line drawings and friendly human features of the persons portrayed are excellent. . ."

Bill Bowker also of The Hesperian Foundation, writes: "At this year's meeting a nurse working with ASECSA (Asociacion de Servicios Comunitarios de Salud) led a workshop on sex education and I am enclosing a copy of the brochure they are using. I am sure you will recognize how your books have helped. . ."

WOMEN'S INTERNATIONAL NETWORK NEWS

EVALUATIONS BY INTERNATIONAL ORGANIZATIONS

INTERNATIONAL PLANNED PARENTHOOD FEDERATION (London) CBPB EVALUATIONS -5

Graham Peck, Librarian, wrote: ". . .they have been mentioned favourably in IPPF publications such as 'Open File' and 'ICIS' (our Library acquisitions list). . .Your CBPB publications are highly valued additions to our Library collections, and are popular with our users. We hope you will continue to send them. . ."

INTERNATIONAL PLANNED PARENTHOOD FEDERATION (Western Hemispheric Office / New York)

"The Western Hemispheric Office favorably evaluated the Spanish edition of the UNIVERSAL CBPB and sent 40 copies, which we contributed free, to their Latin American affiliates. Several of their affiliates then ordered multiple copies for their teaching programs.

INTERNATIONAL CHILDBIRTH EDUCATION ASSOCIATION, INC. (ICEA) (Minneapolis, MN/USA)

Linda Todd writes: "I am impressed with the simplicity of the art which visually clarifies female development, male anatomy, conception, fetal development and the birth process. I am grateful for the multi-racial approach to the drawings. Your glossary is exceptional, a real boon to parents whose reading skills are limited. . .For the woman with adequate reading skills, I am certain the entire book will be useful. For those whose reading ability is limited, the brevity of information will be appreciated. . ."

UNICEF (New York)

UNICEF's Information Department favorably evaluated the CBPB and asked for 40 copies to send to their representatives overseas, especially those concerned with preparation of teaching aides.

REVIEWS OF BASIC CBPB

BIRTH AND THE FAMILY JOURNAL, Berkeley, CA

Pamela Shrock, R.P.T., M.P.H. writes: ". . .the pictures are highly informative. Standing on their own, they are capable of clarifying the complex processes of human reproduction and childbearing so that their comprehension is within the reach of everyone. . .The easy-to-follow, accompanying narrative is presented in a consise, non-judgmental manner, and it is well-suited to persons with even minimal education. Of particular interest are three pages on nutrition in pregnancy and during lactation. . .What ties up this wonderful book is a most interesting glossary. . .The CHILDBIRTH PICTURE BOOK is one that I enthusiastically recommend. It will be useful for sex education of people of all ethnic persuasions, all socio-economic groups and educational levels, whether childbearing or not. . ."

THE PRACTICING MIDWIFE, Summertown, TN

Ina May Gaskin, Editor, writes: "The CBPB presents the biological facts of reproduction, childbirth and lactation simply and graphically to people who might not otherwise be acquainted with the functioning of women's bodies. . .The book's strongest point is the excellent drawings done by Marcia Williams, a medical illustrator. Her ink sketches are very clear and economical, showing the right amount of detail for this sort of work. . .The CBPB should serve its intended purpose well. . .This book has been kept sufficiently simple that it could be made available to teenagers in urban cities."

GENESIS (published by The Am. Society for Psychoprophylaxis in Obstetrics, Washington, D.C)

Marcia Walker, ACCE, writes: "The great value of this book lies in its wonderful illustrations and short, concise, textual explanations of the biology of human reproduction. ...This book is a must for sex education classes in schools, for pre-teens as well as teenagers. It is an excellent means of encouraging communication between parents and children when the inevitable question arises as to where babies come from. It will also be very valuable for pregnant teenagers, parents with limited education,and childbirth classes in the inner city."

CHILDBIRTH ALTERNATIVES QUARTERLY, Stony Brook, NY

Janet Isaacs Ashford, Editor, writes: "The book should be of great use to parents and childbirth educators in Outreach Programs and sex education for children. . .it is designed to help women around the world understand and value their intact, healthy bodies and their unique biological functions."

THE LONGEST REVOLUTION, USA

Cheryl J. Robinson's review: ". . .there are very few books written nowadays that can be shared by the whole family. The CBPB falls among this select few. Once in a while a book comes along that every mother, every woman contemplating motherhood, every father, every man thinking about fatherhood, and every house where there are young people, should have. The CBPB is just such a book."

CANADA

NORTHLAND CLINIC, (Cochrane, Ontario, Canada)

Dr. J. Slater writes: "I have a multi-lingual practice (mostly French Canadian and English, but some Chinese, Polish, etc.) and this book is particularly helpful in these areas. . .I find the book the most useful tool I have in my prenatal instruction. I have been in practice for some twenty-five years."

WIN
WOMEN'S
INTERNATIONAL
NETWORK

NEWS

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VOL. 10 NO. 1
WINTER 1984

© 1984 FRAN P. HOSKEN ALL THE NEWS THAT IS FIT TO PRINT BY, FOR & ABOUT WOMEN. ISSN 0145-7985

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WOMEN'S INTERNATIONAL NETWORK NEWS

WIN NEWS IS A WORLD-WIDE OPEN COMMUNICATION SYSTEM BY, FOR & ABOUT WOMEN
OF ALL BACKGROUNDS, BELIEFS, NATIONALITIES & AGE-GROUPS.
WIN NEWS SERVES THE GENERAL PUBLIC, INSTITUTIONS & ORGANIZATIONS BY TRANSMITTING
INTERNATIONALLY INFORMATION ABOUT WOMEN & WOMEN'S GROUPS.

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NEWS
FRAN P. HOSKEN
EDITOR

WOMEN'S INTERNATIONAL NETWORK NEWS

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FAO: Food & Agriculture Organization
UNESCO: U.N. Educational, Scientific & Cultural Organization
UNICEF: U.N. Children's Fund
TARS: Technical Assistance Recruitment Service
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DAC - DEVELOPMENT ASSISTANCE COMMITTEE of OECD Adopts Support Principles of Women in Development
RURAL WOMEN EXCLUDED FROM TRAINING IN NEW TECHNOLOGY - International Labor Office Information Newsletter
INTERNATIONAL AGRICULTURAL TRAINING PROGRAMS FOR WOMEN by U.S. Dept. of Agriculture
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NEWS

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VOL. 10 NO. 1
WINTER 1984

ALL THE NEWS THAT IS FIT TO PRINT BY, FOR & ABOUT WOMEN.

ISSN 0145-7985

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Interfaith Action for Economic Justice

FOREIGN AID AS IF PEOPLE MATTERED

Statement Prepared for the
Subcommittee on Foreign Operations
Committee on Appropriations
US Senate

March 20, 1984

Interfaith Action for Economic Justice is a coalition of 25 national Protestant, Roman Catholic, Jewish and ecumenical agencies that work together on federal legislation to achieve just and effective US food and agriculture, health and human services, and development and economic policies.* Formerly known as the Interreligious Taskforce on US Food Policy, Interfaith Action speaks for itself.

Last year Interfaith Action outlined for the Subcommittee the shortcomings of the Reagan Administration's foreign aid request as we saw them. These included 1) a failure to respond adequately to the gravity of the global economic crisis; 2) the unduly high priority given to military and security and considerations at the expense of economic and development concerns, and 3) a retreat into bilateralism.

This year the Administration's requests for FY 85 and supplemental FY 84 funding move still further away from the kinds of development efforts we think are desperately needed. As we did last year, we wish to offer recommendations for changes in the request. Unless fundamental revisions are made, we may once again be forced to oppose the foreign aid appropriations legislation.

What are the needs of global community that the Administration's proposal seeks to address? The developing world is engulfed in an economic crisis unmatched since the Great Depression of the 1930s. Last year marked the third consecutive year of world economic recession. Economic conditions in many countries have continued to deteriorate, and development in most countries is at a standstill.

For most countries, the future does not offer much hope. High interest rates, coupled with depressed commodity prices and increased protectionism, continue to threaten economic recovery. In human terms, recession has meant increased unemployment and cutbacks in social services. Greater numbers of people throughout the Third World are pushed to the margins of their economies and beyond the limits of their capacity to cope.

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* The American Jewish Committee is no longer a member of Interfaith Action.

Against this backdrop, the Administration proposes:

--Increases in military aid to many developing countries;
--Allocations of economic aid skewed in favor of those countries considered strategically important to the US;
--Emphasis on economic growth through aid-recipient country domestic policy reform and private sector development;
--Decreased funding for multilateral agencies; in particular, the International Development Association, International Organizations and Programs, and regional development banks.

The following sections discuss specific aspects of each of these features of the proposed foreign aid program. In each instance, we recommend changes needed to increase the ability of US aid to meet the pressing needs of the developing world.

Military Aid

The Administration's total military aid request for FY 85 represents a decrease of $229.2 million from the FY 84 Continuing Resolution aid level. The Administration has also proposed shifting Foreign Military Sales (FMS) financing on-budget in order to provide concessional financing for certain countries.

This year's lower overall military aid request obscures the fact that military aid to most recipient countries—including many developing countries--would actually increase if the Administration's proposal is approved. Increases for 27 countries and two regional programs (totalling $346 million) are coupled with decreases (totalling $575.2 million) for nine countries. This proposal includes a substantial decrease for Israel and Egypt made possible because all of the aid is to be provided on a grant basis. However, the resulting net decrease is offset by a request for supplemental FY 84 military aid funding of $259 million for Central America. The Administration's proposal thus would continue the recent trend toward militarization of the foreign aid program.

Because the number of real and potential defaults and reschedulings of FMS loans has been increasing in recent years, the Administration is proposing that financing be provided directly by the US Treasury at concessional interest rates. This proposal requires that FMS credits appear in the on-budget totals in the foreign aid program.

While increased concessionality may relieve some of the immediate pressure on developing countries' debt burdens, we believe that, over the long run, military aid on easy terms may further undermine development in Third World countries. Concessional aid may encourage countries to undertake expensive military programs beyond their ability to sustain. Moreover, the financing of recurrent costs that accompany military build-ups often forces countries to divert resources from more productive development uses. Less-concessional or market level interest rates on military transfers, on the other hand, may deter increased militarization.

We recommended last year that the FMS program be placed on-budget to provide closer scrutiny by Congress of program funding and to help reverse the steadily increasing levels of military aid. We continue to support on-budget funding for FMS but favor more rather than fewer constraints on the flow of arms to the Third World. Interfaith Action therefore recommends reductions in military aid to developing countries and opposes increased concessionality.

Allocation of Economic Aid Resources

Increasing amounts of US assistance (ESF, development, and food aid) are being allocated not to the countries most in need of non-commercial aid but to those countries the Administration views as strategically important. The result is a skewed distribution of resources both among and within regions.

This trend is most strikingly illustrated by contrasting the Administration's aid request for Africa with its request for Central America. AID Administrator Peter McPherson told Congress this year: "Measured by almost any indicator of development—income, infant mortality, literacy, malnutrition or life span—the situation in Africa is more serious than elsewhere."

Yet the aid request for the two regions does not reflect Mr. McPherson's judgment that the gravity of the African situation outweighs problems in any other part of the world. The proposed supplemental FY 84 and FY 85 funding for these two regions represents a per capita increase (based on population totals of US aid-recipient countries) of $40.62 for Central America and a meager $1.01 for Africa.

In this respect, the US is badly out of step with the rest of the international community. According to figures of the Development Assistance Committee of the Organization for Economic Cooperation and Development, sub-Saharan African countries, with about 11 percent of the population of the Third World, in 1980-81 received 28.4 percent of world official development assistance (ODA). Latin America (including the Caribbean), with about 11 percent of Third World population, received about 10.5 percent of world ODA.

In view of this alarming politicization of the US foreign aid program, we therefore recommend a fundamental reordering of priorities to reflect a more just response to the actual needs of the developing world.

The overriding emphasis on geopolitical considerations in US aid allocations is also evident in the distribution of resources among countries in each region. In Africa, $455 million, or nearly one-half of proposed FY 85 development, ESF, and food aid is allocated to just four countries—Sudan, Kenya, Somalia, and Liberia. Two of these, Kenya and Liberia, are middle-income rather than low-income countries, and the four together contain only 12 percent of population of sub-Saharan Africa. In addition, Zaire—in spite of well-documented mismanagement of public funds—would receive the sixth largest share of US bilateral aid to Africa for FY 85.

To improve substantially the effectiveness of the US aid program in addressing the desperate needs besetting Africa, we recommend:

--Country allocations based less on security considerations and more on country need;
--Modest decreases in ESF for Kenya, Liberia, Sudan, and perhaps Somalia accompanied by transfers of a similar amount to development assistance for the poorest countries currently less favored in the US aid program;
--Elimination of ESF aid for Zaire; and
--Increases in multilateral assistance, especially for the International Development Association (IDA), the International Fund for Agricultural Development (IFAD), UNICEF, and the World Food Program (WFP) (see below).

In Central America, the lion's share of the aid request would go to El Salvador, while another of the seven countries in the region--Nicaragua--would be excluded entirely. On the other hand, aid for Guatemala--whose government has perhaps the worst human rights record in the hemisphere--would total $96 million in FY 85.

The largest increases requested for both security and development aid for FY 85 are based on the recommendations of the National Bipartisan (Kissinger) Commission on Central America. However, we believe a basic contradiction exists between the large increases in economic and development assistance and the request for vastly increased military aid . Given the Administration's faulty geopolitical approach to Central American needs, we doubt that these economic, development, and food assistance programs will succeed and hold that they therefore should not be approved.

We have elaborated on our analysis and recommendations in other contexts. To summarize, we recommend that:

--All requests for additional military aid be rejected;
--Congress defer action on the Administration's overall economic aid request for Central Americ to allow for further study and for changes in US policy that would create a climate in which the stated objectives of the program could be achieved;
--US assistance for emergency relief be continued throughout the region;
--Current economic, development, and concessional food aid to El Salvador be suspended until unconditional dialogue with the opposition has begun; and
--Economic and development aid to the other nations of Central America be appropriated in country-specific amounts, with particular attention to the needs and conditions in each country.

Policy Reform and the Private Sector

Increasing amounts of development assistance are being devoted these days to economic growth through policy reform and private sector development. The two are linked in the Administration's approach. One major objective of the policy dialogue is to enhance private enterprise and private sector development, which the Administration views as the key to future development in Third World countries. We question the adequacy of this approach.

While there is a growing consensus among development theorists and practitioners that certain policy reforms are indispensable to resumed economic growth and development, there is serious disagreement over whether these reforms should be narrowly tied to promoting private sector development. As development specialist Richard Newfarmer has observed:

"Governments in developing countries are more likely to play a more active role in the economy--because managing macroeconomic policy in the context of a dominant international economy is inherently more difficult; because growth in the private sector may be dependent upon rapid growth in public infrastructure or publicly provided basic industry; because private sectors are weaker and cannot invest in large projects routinely handled privately in the developed countries; and because laissez-faire policies in the presence of imperfect markets do not hold the greatest potential for rapid growth."

Economic growth is certainly vital to development in the Third World, particularly following the current period of economic recession. However, past experience demonstrates that the relationship between growth and equity requires careful attention if the benefits of development are to be shared throughout the entire population. As Rutherford Poats, chairman of the OECD Development Assistance Committee, pointed out recently: "The reduction of poverty and its shadow, hunger, in (low-income) countries depends in the long run upon the broadening of popular participation in economic growth, especially agriculture-based growth; income distribution and growth policies can be made fully compatible, but they will not automatically be so."

Symbolic of the Reagan approach to policy dialogue and private sector, the Administration's proposed Economic Policy Initiative (EPI) for Africa would provide $500 million in sectoral development assistance over a five-year period--$75 million in FY 85--to support countries engaged in policy reform in health, education and, especially, agriculture.

We recognize the current need for policy reform in many African countries--including the need to shift to the private sector some functions currently handled by government industries and parastatals. However, we believe that policy reform is only one of many necessary components of an effective development strategy for Africa. No matter how attuned to development needs, policy reform--in the absence of improvement in the international economy and adequate external development resources to address other development constraints--will not be sufficient to promote significant progress in development. Policy dialogue is not a satisfactory substitute for increases in more traditional forms of bilateral and multilateral development assistance.

We are also concerned that EPI support may be linked to policy reforms that emphasize the private sector to the neglect of the public sector, economic growth to the neglect of equity, and policy changes desired by the US to the exclusion of other equally or more appropriate policy changes sought by African governments. We therefore reserve judgment on the EPI until the Administration shares more details--including the countries for which EPI assistance is proposed--about how the EPI will operate. In the meantime, we question whether a bilateral initiative is the best vehicle for promoting policy reform. A multilateral approach to an issue of such complexity and sensitivity seems more likely to succeed than a potentially politically--and ideologically--charged bilateral tack.

With respect to the EPI as well as other forms of US assistance for Africa and other regions, we therefore believe that the Administration's emphasis on growth must be more clearly linked to efforts to assure more equitable distribution of the benefits of such growth. Until such linkages are more clearly articulated and understood, we recommend that large increases in funding for private sector initiatives not be approved. If any such funds are approved, they should continue to be linked to the basic human needs objectives of the US foreign assistance program.

Multilateral Aid Retrenchment

The US response in Africa illustrates dramatically the Administration's increasingly pronounced tendency to draw back from multilateral development efforts. US refusal to agree to a $12 billion seventh replenishment for the International Development Association (IDA) will have a particularly devastating impact on Africa. A $9 billion replenishment leaves IDA with $3 billion fewer resources than under the last replenishment, at a time when China's entry into membership and eligibility for concessional loans will place increasing pressure on IDA resources. IDA's goal has been to commit 40 percent of its loans in any given year to Africa; last year, commitments for Africa reached 37 percent. Thus, the US refusal to support IDA VII at a level other donors were willing to accept can be expected to result in a loss of $1 billion or more annually in concessional development aid for African countries. The proposed US Economic Policy Initiative cannot begin to compensate for such a loss.

We recommend that the Subcommittee press the Administration to reverse its decision on IDA VII. We support restoration of US contributions to IDA at least to the level of IDA VI--an increase of $250 million above the President's annual request level over the next three years.

The continued lukewarm support by the US for the International Fund for Agricultural Development (IFAD) has forced that organization to cut back by one third its lending for projects benefitting small farmers and landless laborers. Widespread uncertainty about US intentions has called the entire future of a promising organization into question. The Administration's request for $50 million for IFAD in FY 85 would leave IFAD still $40 million short of what is needed to complete the US contribution to the first replenishment, already a year overdue. IFAD offers an important multilateral vehicle for promotion of vitally-needed increases in food production and policy reform in developing countries. Prompt completion of the first replenishment would allow increased IFAD support for small farmer-based activities in Africa and elsewhere and help to reverse the trend of declining African food production. We recommend that Congress enable the US to pay up its full arrearages of $90 million in FY 85 and press the Administration to participate supportively in IFAD's second replenishment.

Funding for other International Organizations and Programs is requested at substantially below FY 84 Continuing Resolution levels. Many of these programs have demonstrated their effectiveness in addressing directly the needs of the poor in developing countries. UNICEF and the World Food Program are particularly important to the poorest countries. Yet the Administration has proposed a 40 percent cut in UNICEF--from $52.5 million to $27 million--in the context of what it describes as US "support" for the children's health revolution. We find incomprehensible that paltry level of support for a globally heralded crash campaign to improve the health of the world's children through such simple steps as oral rehydration therapy and growth monitoring. We would support significantly higher funding levels for UNICEF than the $52.5 million it now receives.

We also support funding of $50 million for a special Child Survival Fund, from which grants would be made available for international organizations, the AID health program, and private voluntary organizations. Improving the health of the world's children--many of whom in developing countries now suffer from debilitating diseases caused by malnutrition and poverty--should be given far greater priority in the US foreign aid program.

Finally, with respect to the World Food Program (WFP), we regret that for the second year in a row the Administration has requested no funds. The US gives large amounts of commodities to WFP each year--our major contribution--but the absence of a cash contribution forces other countries to pay half of the freight for sending US commodities abroad. A cash contribution provides needed administrative and policy support for US and international food aid. A well-resourced and effective WFP will continue to play a key role in responding to the current famine in Africa. We recommend that Congress again this year appropriate $2 million for the WFP.

Conclusion

We have outlined above some suggested changes in the US foreign aid program that we believe would make it more responsive to human need in developing countries.

The development prospects of the poorest countries, especially those in sub-Saharan Africa, are not promising. After several decades of independence, many such countries are reassessing their development progress and seeking to correct the mistakes of the past. But even as they seek new directions, most simply do not have the domestic resources to cope with the problems facing them, to turn their economies around, and to create the conditions in which the poor will be able to improve their lives.

The US is faced with both a challenge and an opportunity, but to meet the challenge effectively would require a deeper commitment to address human needs both multilaterally and bilaterally than the Administration's FY 85 request proposes. Developing countries do not need arms at cheaper prices. They need assistance from an international community that is responsive to the plight of the poor and sensitive to indigenous views of how to solve development problems. We would like to see the US once again play a leading role in such an assistance effort.

PREPARED STATEMENT OF PETER H. CARDIGES

PRESIDENT

AMERICAN HELLENIC EDUCATIONAL PROGRESSIVE ASSOCIATION

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to present the views of the American Hellenic Educational Progressive Association, AHEPA, an American organization whose membership is composed primarily of Americans of Hellenic descent.

On February 6, 1984, Assistant Secretary of State Richard Burt testified before the House Subcommittee on Europe and the Middle East that "our economic and military assistance programs have proven to be an essential foreign policy instrument." These programs alone can not bring stability to the region; appropriating millions of dollars in foreign aid based simply on the recipient's geostrategic location does not make either military or diplomatic sense. Other factors must also be taken into consideration--for example, the recipient's political orientation, human rights record, economic system, trade relations, and its relations with neighboring countries--thus aid to Turkey must be considered within its full context, including Turkey's relations with Greece and Cyprus.

Assistant Secretary of Defense Richard Perle also testified before the House Subcommittee that if we reduce or condition aid to Turkey, we would damage our own security by weakening the NATO Alliance. But, the current tensions between Turkey and Greece over Cyprus and the Aegean--exacerbated by Turkey's recent attack on a Greek destroyer in international waters--already undermine the basic ability and determination of the Alliance to act collectively in order to meet the Alliance's classical objectives of deterrence and defense. Regardless of the amount of aid we provide to either Turkey or Greece, unless progress is made towards resolving their bilateral disputes, NATO's southeastern flank will remain in disarray and unable to fulfill its assigned tasks.

Aid Considerations

We believe that the proposed security assistance programs for Turkey and Greece for fiscal 1985 should be considered according to two criteria: their cost to the American taxpayer and their relation to the qualitative and quantitative military balance in the area.

The Administration has requested $500 million in Foreign Military Sales (FMS) credits for Greece, while the Turkish aid package, which consists of five elements, totals $930 million. The $500 million FMS loan at Treasury rates for Greece and $275 million in FMS credits for Turkey--also on conventional financing terms--will not burden the American taxpayer, assuming that the recipients meet their principal and interest repayment schedule.

However, the other four elements of the Turkish aid package--two which are grants and two which are loans at favorable terms--have a direct cost to the United States. They are a $230 million Military Assistance Program (MAP) grant; a $250 million FMS concessional loan for 12-years at 5% interest, with principal and interest repayments to begin in the sixth year; a $90 million Economic Support Fund (ESF) grant; and an $85 million, 20-year ESF loan at 5% interest with repayments commencing in the sixth year.

The concessional cost of these loans is the difference between the generous terms on which they are provided to Turkey and the cost to the United States government to borrow the money. The concessional cost becomes part of the U.S. budget deficit.

Assuming a Treasury borrowing rate of 12%, the U.S. cost of the FMS concessional loan will be $87 million; while the ESF concessional loan will cost American taxpayers almost $40 million. The total, direct cost to the American taxpayer of the Turkish aid package is $447 million, according to this breakdown: $230 million for the MAP grant; $87 million for the FMS concessional loan; $90 million for the ESF grant; and, $40 million for the ESF concessional loan.

Policy Considerations

U.S. foreign policy is committed to maintaining a military balance in the Eastern Mediterranean, established at the Congressionally-mandated ratio of 10:7 in aid to Turkey and Greece. We believe that the aid levels requested by the Administration for Turkey and Greece for fiscal year 1985 seriously disrupt the principle of balance, and, I believe, violate the intent of our recent Defense and Economic Cooperation Agreement with Greece which states that "United States assistance shall also be guided by the principle set forth in the United States law that calls for preserving the balance of military strength in the region."

The Administration maintains that if we show our friendship to Turkey--by giving it nearly a billion dollars in aid--that Turkey will respond in kind. On November 14, 1983, President Reagan signed the foreign aid bill for fiscal year 1984 which contained more than $800 million worth of friendship; hours later, Turkey responded by recognizing the Turkish Cypriot secessionist state, although the State Department had repeatedly made it clear that such action was contrary to U.S. policy and would subvert the UN Secretary General's efforts to stimulate a Cyprus settlement.

Further, we must also question how, if Turkey is economically unable to meet its NATO obligations, it can afford the cost of maintaining its occupation troops on Cyprus, at an estimated cost of $225 million per year. The cost of this occupation force is roughly equivalent to the $230 million in MAP grants that the Administration has requested for Turkey this year. [Based on the estimated cost of $9,000 per year, per Turkish soldier, given by Under Secretary William Schneider in testimony before the House Subcommittee on International Security and Scientific Affairs, February 21, 1984.]

In addition to the $225 million which Turkey spends to maintain an estimated 25,000 troop occupation force on Cyprus, it also maintains a sizable force--the Turkish Fourth Army--opposite Greece's Aegean islands. Rather than contributing to NATO objectives, the deployment of these troops are a primary source of the frictions between Turkey and Greece, which unravel NATO's southeastern defenses.

Conclusion

We have presented two criteria which we believe should be used when examining U.S. aid to Turkey and Greece: the cost of these programs to the United States, and their effect in maintaining the balance of power in the region.

We believe that both these concerns are best served by withholding all loans at concessional rates and all grants of military aid from Turkey, or, at a minimum, by maintaining a qualitative and quantitative balance of power in the region by providing aid to Greece on equal terms. As we have pointed out, Turkey has the potential to maintain a credible defense and fulfill its NATO obligations--if it would remove its occupation troops from Cyprus and end its provocations in the Aegean Sea.

We believe withholding concessional and grant aid from Turkey is a fair policy, one that would remove a $447 million burden from the American taxpayer, without hampering the modernization of the Turkish armed forces. Such a policy would also maintain the critical balance of power on NATO's southeastern flank.

We have shown that the Administration's request of $930 million in security assistance for Turkey for fiscal year 1985 has a real value of $1.377 billion. This $447 million subsidy is more than three times the grants given to Turkey in FY84, when Turkey received a MAP grant of $130 million.

Yet, during the last year, Turkey refused American planes landing permission for the evacuation of the wounded Marines from Lebanon; recognized the secession of Turkish-occupied Cyprus, in spite of the urging of the State Department to withhold recognition; and greatly increased its Islamic, anti-Israeli rhetoric. If this is the gratitude we received for $130 million of American money, what tokens of friendship are we to receive for $447 million?

Thank you.

NATIONAL WILDLIFE FEDERATION
1412 Sixteenth Street, N.W., Washington, D.C. 20036 202—797-6800

March 26, 1984

Statement of the
National Wildlife Federation
Concerning the Seventh U.S. Replenishment of the
International Development Association

The National Wildlife Federation submits this statement to express support for the 7th Replenishment of the International Development Association, on the condition that the World Bank undertake in the near future measures to adequately implement its official policy commitment to sound natural resources management.

The National Wildlife Federation (NWF) is the nation's largest conservation organization, with over 4 million members and supporters. The Federation is dedicated to the wise use of natural resources and believes that appropriate use and management of natural resources underlies sustainable economic development. We are providing assistance to conservation organizations, forming all over the developing world, which we hope will lead to a growing constituency for natural resource management and conservation in each country. One of our goals is to build an awareness that conservation is basic to development and not a luxury.

This month at the annual meeting of the Federation our 51 state and territorial affiliates unanimously passed a resolution calling upon the World Bank and other multilateral banks to carry out their responsibility to build conservation into all their programs and projects. A copy of this resolution is attached to this statement.

Our concerns include extinction of wildlife, loss of soil productivity, salinization of agricultural soils, erosion, and pesticide abuse, which are just a few of the environmental problems the Third World faces today. These problems stem from the rapid development which has taken place in these countries, often without consideration of environmental ramifications. Such unsound development not only affects local environmental quality and human welfare, but global natural resources and worldwide economic, social, and political stability as well.

The ecological stability of the Third World is heavily influenced by multilateral development banks (MDBs) especially the World Bank. These institutions provide funding for projects in such environmentally sensitive areas as agriculture, electric power generation, industry, and transportation.

World Bank projects are frequently implemented without adequate consideration of their environmental effects. But perhaps even worse, some projects fail to produce expected economic benefits because their planning failed to include sound resource management. Lack of environmental planning has been a significant factor in the failure of IDA projects in Madagascar and Nepal. Large-scale agriculture projects involving intensive pesticide use have created serious human health and environmental hazards. In the Sudan, resistant strains of insects are appearing in IDA project areas, threatening the economic value of the projects.

The World Bank does not have adequate procedures or staff to address these environmental factors in the project planning process.

The local impacts of unsound development projects are readily apparent. The long-term global effects are perhaps less immediately obvious but may ultimately be more costly. Razed tropical moist forests, and habitat loss throughout the world, reduce global biological diversity and therefore eliminate untapped natural resources. Pesticides used in developing countries contaminate food exported to the developed world and poison migratory wildlife. Erosion of the natural resource base in the Third World may have serious long-term consequences for global stability.

In February of 1980, the chief executives of the major multilateral development banks, including the World Bank, signed a joint "Declaration of Environmental Policies and Procedures Relating to Economic Development." In this document, the executives pledged that their institutions would include environmental assessment and evaluation in their project planning procedures. They also pledged to support projects designed to protect and enhance environmental quality and natural resources. It is apparent, however, that in over four years there has been little improvement in policy or practices.

NWF strongly believes that long-term, sustainable economic development is not possible without sound environmental management and conservation. Therefore, though we support the 7th U.S. replenishment of IDA, our support is conditioned on the expectation that the World Bank will undertake in the near future actions to implement its policy commitment to sound natural resources management. Some of the needed measures are described in the outline which accompanies Mr. Rich's statement on behalf of a number of national environmental organizations. We request that the Congress express its concern about the World Bank's implementation of its environmental policy in language accompanying the 7th U.S. IDA replenishment.

Resolution No. 17

MULTI-LATERAL DEVELOPMENT BANKS AND NATURAL RESOURCES CONSERVATION

WHEREAS, the United States is the single most important donor to such international institutions as the World Bank, the Inter-American Development Bank and the Asian Development Bank (known as multi-lateral development banks [MDBs]); and

WHEREAS, one of the main purposes of these banks is to assist the economic betterment of less developed countries and help to raise the standard of living of their peoples by such projects as road and dam building, clearing of tropical rain forest for mono-cultures and farm developments; and

WHEREAS, conservation and sound management of natural resources are vital to long-term sustainable economic development, in such areas as soil, watershed and fisheries management and prevention of deforestation and desertification, public health and conservation of genetic resources; and

WHEREAS, the chief executives of each of the multi-lateral development banks declared that "in the long run environmental protection and economic and social development are not only compatible but interdependent and mutually reinforcing" and that "international development assistance institutions have ... a responsibility to ensure the sustainability of the economic development activities financed by them;" and

WHEREAS, each of these banks pledged in the United Nations "New York Declaration" of Febrary, 1980, to: "ensure integration of appropriate environmental measures in the design and implementation of economic development activities;" support natural resources conservation and management projects; support training of both bank and borrowing-country personnel in environmental areas; and to systematically examine all development activities to ensure compliance with the conservation principles and recommendations of the United Nation's Conference on the Human Environment (Stockholm, 1972); and

WHEREAS, although the World Bank has been a leader in beginning to implement this pledge, nevertheless, none of the MDBs has made the adequate staffing, policy and procedural commitment necessary to fulfill its obligations under the New York Declaration; and

WHEREAS, the actual progress of the MDBs in meeting the goals of the New York Declaration has been the subject of special Congressional oversight hearings and of an investigation by the U.S. Treasury Department; and

WHEREAS, improvement in living standards of many developing countries, through ecologically sustainable programs, for example in Central America, has implications for the national security of the United States;

NOW, THEREFORE, BE IT RESOLVED that the National Wildlife Federation, in annual meeting assembled March 15-18, 1984, in Atlanta, Georgia, calls upon the multi-lateral development banks to fulfill the pledge they made in the New York Declaration; and

BE IT FURTHER RESOLVED that the National Wildlife Federation calls upon the United States Government, through the Treasury Department, to use its voice and vote, on the Board of Directors of each bank, to vigorously promote: 1) sound natural resources management policies and projects to complement long-term economic goals; and 2) internal changes within the banks concerning lending procedures, shaping of economic development strategy, and appropriate staffing levels, to enable the banks to carry out the pledge of the New York Declaration.

SUBCOMMITTEE RECESS

Senator **Kasten**. We now stand in recess subject to the call of the Chair.

[Whereupon, at 5:40 p.m., Tuesday, March 20, the subcommittee was recessed, to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1985

WEDNESDAY, MAY 23, 1984

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, D.C.

The subcommittee met at 10 a.m., Hon. Robert W. Kasten, Jr., (chairman) presiding.

Present: Senators Kasten, Specter, Inouye, Johnston, Leahy, and DeConcini.

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF HON. KENNETH W. DAM, DEPUTY SECRETARY, DEPARTMENT OF STATE

ACCOMPANIED BY JAY MORRIS, DEPUTY ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

OPENING STATEMENT OF SENATOR KASTEN

Senator Kasten. The subcommittee will come to order.

This morning the subcommittee begins its hearings on the administration's funding request for Central America, which has been submitted to Congress in response to the findings of the National Bipartisan Commission on Central America. Our witness this morning is Deputy Secretary Kenneth Dam, who has been assigned by the President to be the chief overseer of the Central American program.

Mr. Secretary, we are pleased to have you with us today, and I think your testimony today is particularly significant because of the Duarte visit, which I understand will conclude today or tomorrow. We have gone through, I think, an extraordinary 3 or 4 weeks, and sometimes even fencing back and forth between different branches of the Congress, and between the Congress and the administration, over the Central American policy.

I think yesterday, and I am sure that Senator Inouye would agree, we went through what I hope will be the beginning of a coalescing around an overall bipartisan consensus on Central America. In fact, if the political opinion does seem to be coming together, it is going to be due to the visit and the personal work by President-Elect Duarte.

He spent some time with our subcommittee yesterday, then with the full Senate, and then some time with the authorizing committee, and it is my understanding from talking to members on both sides of the aisle that all were profoundly impressed and really believe that we ought to give this man a chance. So I am hopeful that we can now develop the kind of political consensus which the Bipartisan Commission, I believe, represents.

On the Commission, as you know, we had a wide range of people, Republicans, Democrats, liberals, conservatives, all coming together. We went forward on that day with a report that every single one of them signed. Unfortunately, from the report process to the congressional process, somehow we missed a beat, and we did not find that kind of broad bipartisan consensus developing on the security questions having to do with Central America.

I believe that as a result of the Duarte visit, and as a result of the elections in Central America, and as a result of, I think, a growing understanding and knowledge of the people of the United States of America about the importance of that region, I think that in the next few days and in the next several weeks we do have an opportunity to develop this bipartisan concern and bipartisan support.

So, I am pleased that you are here today.

Senator Inouye, I do not know if you have a statement at this time.

Senator INOUYE. No, thank you, Mr. Chairman.

Senator KASTEN. Mr. Secretary, please go forward with your testimony.

OPENING REMARKS

Mr. DAM. Thank you, Mr. Chairman.

I have a statement which I am submitting for the record. It deals not only with our request, but also with attempts to deal with some of the questions that have been raised about the program of the Bipartisan Commission which is the foundation for the President's request.

I am going to confine my opening remarks to something much shorter. I would like to say that when we get to the question period, if there are questions about the economic aspects of this program, I have here with me Mr. Jay Morris, who is the deputy administrator of AID, and who will be able to answer questions directed to the programs administered by that Agency.

STRIDES TO DEMOCRACY BY EL SALVADOR

Mr. Chairman, we are at a critical juncture in Central America. El Salvador has made important strides toward a democratic civilian government. Cuban and Nicaraguan-backed guerrillas appear to be gearing up for a major new military effort this fall. The Contadora process is beginning to grasp specific terms for peaceful regional settlement. The Nicaraguan Sandinistas continue their aggressive totalitarian course. The regional peace process can succeed if the United States has the vision to follow a consistent policy and back up the necessary resources.

The National Bipartisan Commission on Central America has proposed such an approach, and the President's Central American Democracy Peace and Development Initiative embodies the bipartisan recommendations. My prepared statement details the recommendations of the Bipartisan Commission, of the President's program, and its passage, I believe, is essential to provide the resources needed to consolidate political, social, economic, and diplomatic gains to protect them from hostile military activity.

RECENT DEVELOPMENTS IN EL SALVADOR

Let us talk for a moment about developments in El Salvador. El Salvador, which only 3 years ago seemed to face insurmountable problems, demonstrates that a comprehensive approach can work. The recent presidential election, the election of President Duarte, took place in a climate of greatly reduced political violence. In 1983, the Salvadoran economy stabilized.

The performance thus far indicates that El Salvador may register positive real economic growth in 1984, the first year in which that has been true for some time. U.S. economic and military assistance has been vital to this progress. El Salvador deserves much credit for its economic reforms and its ability to take advantage of improving markets for Salvadoran exports as well as its progress on political and security fronts.

We must continue to provide adequate and reliable assistance. President Duarte's inauguration on June 1 will represent a significant advance in the process, which he himself helped initiate in 1980 to 1982 as head of the government, toward the establishment of a representative democratic government committed to political and social reform. As President-Elect Duarte said on Sunday, and I quote, "I will confront the abuses of authority and the problem of death squads and the problem of violence and the problem of lack of opportunity."

Let us talk a little bit about the guerrilla activity in El Salvador. Frustrated by the success of reform and democratization in El Salvador, the guerrillas are increasingly focusing on a military solution. The guerrilla leader, Joaquin Villalobos, stated that the guerrillas would step up activity, and I quote, "before, during, and after the elections," and they have been good to their word in this respect.

Since the beginning of the year, they have conducted over 70 actions in an unsuccessful attempt to disrupt the elections. The guerrillas' propaganda, the increased kidnapping of youths—and they have kidnapped approximately 800 individuals since March 1 to May 7—and intelligence reports all indicate that the guerrillas are gearing up for an all-out military effort in the fall.

The military assistance portion of the President's request is essential to provide the armed forces of El Salvador with the material and training required to deny the guerrillas their objective and to protect continued progress. In Central America as a whole, a negotiated solution that is reciprocal, verifiable, and enforceable is the key to successful implementation of a regional peace agreement.

CONTADORA INITIATIVE

The Contadora process is appropriately a regional initiative in which the countries most directly affected are seeking a solution to the region's problems. We are not a direct participant and have no desire to participate in that process, especially since the Contadora countries prefer it that way.

In fact, when they established the process, they in effect invited us out and wanted to have their own process, but we wholeheartedly support the process, and we wholeheartedly support the Contadora document of objectives, and there clearly is an interplay between our policies and the ability of Contadora to be a meaningful forum for negotiations.

And as a matter of fact, let me say that the Contadora document of objectives addresses all of our major concerns in Central America. If the document of objectives were to be negotiated out and fully implemented on a verifiable and enforceable basis, then our concerns would be met. Our experience with the Sandinistas suggests that they will back away, however, from any agreement that was truly binding, but the pressure on them now is much greater than it was when we made our bilateral approaches to them in 1981 and 1982.

Benefiting from that pressure, the Contadoras succeeded in getting Nicaragua at least formally to commit itself to the document of objectives I just mentioned. On April 30, the Contadora political, economic, and security working groups presented drafts to the Contadora foreign ministers. The nine foreign ministers received them, and they are working now to integrate them into a negotiated text.

Without our assistance and support, Costa Rica, El Salvador, and Honduras would be in no position to effectively bargain with Nicaragua over support of guerrilla activity within their territories, menacing military buildup, or its unsettling military relationship with the Soviet bloc and Cuba.

PRESIDENT'S CENTRAL AMERICA REQUEST

The specific request made by the President in February would enable our Central American neighbors to overcome these problems and resume equitable growth and independent foreign policies. The economic assistance would first help stabilize individual economies and then help stimulate long-term regional development. The military assistance would help break the stalemate in El Salvador, and help shift the regional focus to diplomacy.

The House of Representatives voted on May 10 to approve the funding levels requested by the President in the bill authorizing the supplemental appropriations for fiscal year 1984 and fiscal year 1985 appropriations. We hope both Houses will complete action on the necessary appropriations so that we can go forward with these important programs.

Let me say that there is no such thing as a wholly economic or wholly political or wholly military solution to Central America's problems. These elements must be pursued simultaneously and equitably and humanely. Economies must be protected as well as being developed through the development process. Governments must be worth protecting. Home-grown poverty and Cuban-directed guerrilla warfare work in tandem. Our policies must address both.

Now, in conclusion, Mr. Chairman, the events in Central America have demonstrated that we are pursuing a viable policy to help bring about a just and lasting peace in the region. All the peoples of Central America should have an opportunity to establish democratic systems on a basis of social justice free from outside interference and free of the east-west tensions which have been imposed upon their struggles.

Because of persistent Sandinista efforts to subvert their neighbors and hostile Cuban/Soviet ambitions in the region, and because the indigenous problems are so difficult as well, the countries of Central America need our help and will continue to need it for some time to come.

The administration concurs fully with the findings of the Bipartisan Commission. Particularly, let me read the following from the Commission.

> The Commission has concluded that the security interests of the United States are importantly engaged in Central America; that these interests require a significantly larger program of military assistance, as well as greatly expanded support for economic growth and social reform; that there must be an end to the massive violation of human rights if security is to be achieved in Central America; and that external support for the insurgency must be neutralized for the same purpose.

PREPARED STATEMENT

The program that the President has proposed meets these standards. It is sound, comprehensive, and realistic. I urge you to give it your full support for early enactment.

Thank you.

[The prepared statement of Mr. Dam follows:]

PREPARED STATEMENT OF KENNETH W. DAM

DEPUTY SECRETARY

DEPARTMENT OF STATE

The Central America Democracy, Peace and Development Initiative Act of 1984

Mr. Chairman, events in Central America have a way of dominating the headlines briefly, then disappearing. Yet the crisis there is deep and pervasive. As the elections in El Salvador demonstrate, democratic politics are working. But a lasting solution will require a comprehensive and region-wide effort.

A systematic and sophisticated program to that end is available. The exhaustive report of the National Bipartisan Commission on Central America and the President's endorsement of its recommendations amount to a national program of action in Central America that meets immediate operational needs within the compass of a long-term strategy.

The actions proposed by the Bipartisan Commission and approved by the President will help to stabilize, modernize and humanize situations plagued by injustice and violence. And they will enable us to take the offensive against poverty, to foster democratic development and respect for human rights, and to help bring lasting peace to this troubled region so close to the United States.

As you know, the President is implementing by executive action those Commission recommendations not requiring Congressional action. The bill he transmitted to the Congress on February 17 embodies the recommendations made by the Bipartisan Commission that do require legislation. The President urges prompt Congressional action in support of this program.

The crisis is acute. Our neighbors in Central America urgently need our help. The United States can make a decisive difference.

The Bipartisan Consensus.

The National Bipartisan Commission was chaired by Henry A. Kissinger. The other Commissioners were Nicholas F. Brady, Henry G. Cisneros, William P. Clements, Jr., Carlos F. Diaz-Alejandro, Wilson S. Johnson, Lane Kirkland, Richard M. Scammon, John Silber, Potter Stewart, Robert S. Strauss, and William B. Walsh.

In the United States, the Commission met with the President, the Secretary of State, three former Presidents, four former Secretaries of State, members of Congress, the Joint Chiefs of Staff, and an exceptionally wide range of organizational representatives and private individuals.

Discussions with Central and other Latin American leaders eliminated the screens created by distance, paperwork and partisan preconceptions, and exposed the Commission's members to the region's realities. They saw for themselves what is happening in El Salvador, in Nicaragua, and throughout the isthmus.

In Central America, communism, violence and dicatatorship feed on misery and a dismal history of injustice. During the last several years, per capita GDP has fallen by 35% in El Salvador, 23% in Costa Rica, 14% in Guatemala, and 12% in Honduras. In four years, El Salvador has lost fifteen years of economic development. And the Sandinistas, Cuba, and the Soviet Union have been actively exploiting these troubles for political purposes through propaganda, covert action, and support for armed struggle.

The result is a destructive dynamic that oppresses the people of Central America and will, unless altered, increasingly endanger the rest of the hemisphere.

This destructive dynamic must end. But it cannot be broken without immediate and persistent action in support of democratic self-determination, economic and social development that fairly benefits all, and cooperation in meeting threats to the security of the region.

That was the consensus reached by the Bipartisan Commission. It is also the basis of the President's legislative proposals.

The Commission found that Central America's problems are complex, severe and deeply rooted. It concluded that there are no quick fixes or shortcuts to solving them. The U.S. interests involved, it pointed out, are both moral and strategic. They are threatened by human rights abuses and economic misery and by Cuban and Soviet intervention.

The Commission concluded unanimously that the future will be far less manageable if we fail to deal with current challenges. It concluded that we are not doing enough to protect our interests. It called for U.S. support for regional diplomatic efforts like Contadora, adding that the United States has a special responsibility to contribute actively to the economic, security, and political conditions required for Contadora to succeed. It recommended that the Administration and the Congress cooperate to provide the resources we and our Central American friends need to attain a lasting peace built on democracy and equitable development.

The Bipartisan Program.

To implement the recommendations of the Bipartisan Commission, the President proposes:

A. Economic Assistance

To halt economic deterioration and the social and political unrest it engenders, the Bipartisan Commission recommended an immediate additional $400 million for emergency stabilization to set the stage for long-term development. The President has requested these funds in the form of a supplemental for FY 1984.

To make possible a comprehensive strategy to promote democratization, economic growth, human development and security, the Commission recommended almost doubling our projected economic aid to roughly $8 billion over the next five years.

The President's implementation plan for FY 1985-1989 calls for a total of $5.9 billion in appropriated funds and off-budget authorities for $2 billion in insurance and guarantees, the latter to include housing investment guarantees and a Trade Credit Insurance Program (TCIP) to be administered by the Export-Import Bank.

For FY 1985, his program calls for $1.1 billion in appropriated funds and $600 million in insurance and guarantees.

Depending on country performance, we estimate that the major beneficiaries of direct, bilateral aid in FY 1985 would be El Salvador ($341 million), Costa Rica ($208 million), Honduras ($139 million), and Guatemala ($96 million). Although other countries would receive more on a per capita basis, El Salvador would be the largest single recipient. El Salvador has sufferred more than $800 million in guerrilla destruction since 1979, an amount greater than the total of all U.S. assistance to that nation during the same period.

This FY 1985 proposal includes:

-- About $550 million in balance of payment support to finance the import of critical goods by the private sector.

-- Major funding to develop commercial agriculture, the backbone of the Central American economies, including assistance to broaden ownership patterns and to increase the availability of credit.

-- $120 million in Public Law 480 food assistance, with local currency proceeds used to reinforce programs in education, health and other vital social services.

-- Funds to strengthen the administration of justice in the region as the surest way to safeguard individual liberties and human rights.

-- Labor-intensive construction of infrastructure and housing.

-- Significantly increased support for practical education, including literacy and teacher corps, scholarships and exchange programs for democratic leaders and institutions.

-- Support for the Central American Common Market and its companion, the Central American Bank for Economic Integration, to revitalize intra-regional trade and restore economic production and employment.

B. Military Assistance

Without security, neither the best economic programs nor the wisest diplomacy will stop opponents of democracy in Central America.

The Bipartisan Commission noted that there is "no logical argument for giving some aid but not enough. The worst possible policy for El Salvador is to provide just enough aid to keep the war going but too little to wage it successfully." It therefore unanimously recommended that the United States provide to El Salvador "significantly increased levels of military aid as quickly as possible, so that the Salvadoran authorities can act on the assurance that needed aid will be forthcoming." (emphasis in original)

The President's proposal is as follows:

- For El Salvador: To break the military stalemate as soon as possible and provide a firmer basis for economic recovery and democratic national reconciliation in El Salvador, we seek $178.7 million in FY 1984 supplemental assistance and $132.5 million for FY 1985. (The pending emergency request for $61.75 million is part of the 1984 supplemental.)

- For the rest of Central America: $80.35 million in FY 84 supplemental military assistance and $123.4 million for FY 1985. The lion's share would be allocated to Honduras, a democracy that faces frequent violations of its national territory by Salvadoran guerrillas seeking refuge or using Honduras as a supply route, as well as by Honduran guerrillas infiltrated from Nicaragua. Honduras also faces a direct military threat from Nicaragua, which has built up armed forces at least five times larger than Somoza's old National Guard and has received more than $250 million in military assistance from the Soviet bloc since 1979.

Conditionality. There is agreement among the Executive, the Congress, and the Commisson that in El Salvador human rights progress is essential to ensure a successful outcome of the war and to protect U.S. security and moral interests. There is also a consensus that U.S. assistance should actively be used to achieve these objectives.

The Commission recommends that military aid to El Salvador "should, through legislation requiring periodic reports, be made contingent upon demonstrated progress toward free elections; freedom of association; the establishment of the rule of law and an effective judicial system; and the termination of the activities of the so-called death squads, as well as vigorous action against those guilty of crimes and the prosecution to the extent possible of past offenders. These conditions should be seriously enforced." (emphasis in original)

The Executive Branch and the Congress agree with this objective, but have not always seen eye to eye on how best to achieve it. We must now find a means to condition our assistance in ways that work.

Progress during the last five months demonstrates that there are effective alternatives to the previous statutory formula that required determinations on an "all-or-nothing" basis at pre-set intervals. This formula is not required to spur executive action, may actually trigger increased hostile action by guerrilla forces, and can focus attention on the certification process rather than on the underlying problems and their remedies.

The Administration is engaged in intense discussions in both the House and Senate to define conditions requiring, as the Commission recommended, that the Government of El Salvador demonstrate progress on specified issues of common concern.

In our view, an effective formula must allow the flexibility to respond to concrete circumstances. Our policies must be able to take into account such factors as sovereignty, local nationalism, and the interplay among contending forces at any given moment.

The only provisions unacceptable to the Administration are ones that prejudge the situation on the ground or that create a presumption that aid should be cut off arbitrarily.

We are, in sum, working closely with the Congress to ensure continuing human rights progress -- including a program to achieve mutually agreed results -- while avoiding confrontations and preserving the President's ability to pursue an effective foreign policy.

C. Central American Development Organization (CADO)

The Bipartisan Commission recommended creation of a Central American Development Organization (CADO) to "do what no existing national or international body now does: provide a continuous and coherent approach to the development of the region, a process of review of that development, and access to the process by those who have not before been an integral part of it."

The President's proposal sets forth principles to guide the negotiations for establishing this cooperative mechanism in conjunction with the Central American countries and other donors.

The President intends to respect the principles set forth in the legislation, both in his negotiations and in subsequent U.S. participation in CADO. In line with these principles:

-- CADO would serve as a broadly-based forum for open dialogue on Central American economic, social, and political development and a continuous review of local policies and of the uses to which foreign assistance is put.

-- Participiction would be open to the U.S., other donors, and those Central American countries which commit themselves to, among other things, peace and mutual security, maintaining or making progress toward human rights, building democracy, and encouraging economic growth through policy reforms. CADO would include the public and private sectors, including representatives from both labor and business. It would be supported by a small professional staff.

-- CADO would evaluate country performance and progress in meeting objectives. It would then make recommendations on political, economic and social development objectives, mobilization of resources and external resource needs, and economic policies and structures.

-- Disbursement of 25% of economic assitance funds authorized under this Act and allocated for each Central American country would be deferred until both the United States and CADO have approved. Consistent with the Constitution, ultimate control of U.S. aid funds would remain with Congress and the President.

D. Multiyear Funding

To ensure effective planning and predictbility, the President's proposal departs from the conventional practice of seeking economic assistance authorizations for only one or two years. We are seeking an authorization that will extend through FY 1989. We are also requesting that appropriations under this authorization be made available beyond a single fiscal year.

This innovation, the development of a properly-funded five-year program, was recommended by the Bipartisan Commission. It is supported by our own analysis. It would enable everyone concerned -- both in the United States and in Central America -- to know what could become available if performance standards are met. It would improve efficiency. And it would remove much of the uncertainty over U.S. reliability and commitment that has plagued U.S. relations with our neighbors in recent years.

II. Policy Implementation and Timing

The scope and importance of the President's proposals to implement the Bipartisan Commission's recommendations have understandably led to many questions. Let me address a few of the major ones.

A. Are we asking more than Central America can usefully absorb?

No. The sums requested are modest in relation to need.

The proposed appropriation of $1.12 billion for FY 1985 is less than 15 percent of our proposed global economic aid budget for FY 1985 and less than 5% of the Gross Domestic Product of the region. Relative to GNP, this is less than aid previously made available to some other parts of the world, including South Korea and Taiwan. The total proposed program of $8 billion over five years is much smaller than the Marshall Plan, which in less than four years provided $42 billion at today's prices.

One useful measure of the ability of Central America to absorb aid in these amounts is the recent shortfall in export earnings. Lower world prices for coffee and sugar and higher costs for imported oil have led to net hard currency losses of $1.5 billion per year -- the same general magnitude as the proposed assistance.

Considerable excess capacity already exists to generate increased employment and output. Private firms need working capital and imported inputs. In the public sector, high priority investment programs that have been suspended or cut back because of austerity programs could be reactivated.

Finally, as the Bipartisan Commission underlined, physical infrastructure needs to be rebuilt, health and education systems need expansion, and investment in productive capacity is essential to employ the region's growing labor force.

B. Will the assistance be used effectively?

Yes. We will not subsidize inefficiency.

First, the largest part of the assistance, especially in the early years, will be balance of payments assistance channeled to the private sector rather than to government programs.

Second, we will provide substantial technical assistance and training for government officials to streamline operations and increase efficiency.

Third, local policy reform will be required to receive and ensure effective use of our funds. We will seek improved opportunities and incentives for private economic activity. In agriculture, adequate prices and access to land with secure titles will stimulate investment and production by the individual farmers. In industry, good policies mobilize individual entrepreneurs to make the right decisions concerning increased employment and production. A key objective of CADO will be to engage the private sector to identify activities that will most increase productivity.

In addition, we are encouraged by progress on two important sources of inefficiency:

-- Capital flight was a serious problem for 3-4 years beginning about 1979. Recently, however, the central banks of the region have greatly reduced such outflows. Our AID missions also are providing advice and technical assistance to help Central American monetary authorities meet the challenge.

-- Corruption has long been a problem in the region. But media reports of abuse of U.S. assistance funds have been exaggerated. And most were stimulated by our own internal audit procedures. It is ironic that our continuing efforts to detect corruption and administrative deficiencies should become an argument against assistance measures that are clearly in the national interest and generally well managed.

C. Are we seeking a military solution in El Salvador?

No. As President Reagan said over a year ago, "the real solution can only be a political one," with the Salvadoran people deciding their own destiny through free and fair elections. That is not a military solution.

We are requesting military assistance to enable the Salvadoran armed fores to break the current stalemate. To provide less would prolong the war and reduce the incentive for the FDR/FMLN to enter into serious discussions with the Salvadoran Peace Commission about a political settlement through elections. President-elect Duarte has declared that he will not engage in power-sharing negotiations with the guerrillas, but that he will offer "a security space so they can also appeal to the people and get elected." Passage of our proposed economic and military assistance package could be a deciding factor in ensuring participation of important elements of the far left in the 1985 municipal and legislative elections.

So long as the guerrillas receive external assistance, however, U.S. military aid must provide a defensive bulwark behind which elections, reform, and recovery can proceed. As the Bipartisan Commission emphasized, assurance of adequate supplies is indispensable to maintain confidence as well as the tempo of planning and operations.

Finally, the amount of military assistance requested for El Salvador should also be kept in perspective: total 1984 military assistance for El Salvador (that provided in the Continuing Resolution plus the supplemental request) is 3.6% of our worldwide military assistance, and the FY 1985 request is 2.1% of the global figure. These are not large amounts, either in terms of our interests in Central America nor of our worldwide responsibilities.

D. Shouldn't increased economic aid accompany or follow an overall regional settlement?

There is no question that economic aid would be more effective in a peaceful setting. But the relevant question is whether withholding economic aid would produce peace. The answer, obviously, is no. Withholding aid until the war is over would simply provide additional leverage to the guerrillas and give them a veto over prospects for peace.

With our support, the five Central American governments agreed last September to negotiate a peace agreement based on a 21-point Document of Objectives. We support this agreement in all its aspects. In accepting it, Nicaragua has agreed to negotiate an agreement that could, if implemented on a verifiable and reciprocal basis, meet our concerns both in Central America as a whole and in Nicaragua. If a regional peace agreement is signed, even with the best intentions of all the parties, it will not succeed if the nations of the region are suffering from economic collapse. In short, the economic assistance which we are requesting is essential to any negotiated settlement.

E. Will these additional resources solve the problem?

Resources alone will not solve the Central American crisis. But the Bipartisan Commission was correct in faulting our policy for not providing the resources needed to sustain progress. Resource predictability would provide the basis of confidence that regional diplomacy needs to channel events toward peaceful solutions, including negotiated solutions wherever possible.

Demonstration by the U.S. of a long-term commitment through the provision of adequate levels of economic and military assistance, and the adoption by Central American governments of appropriate economic, political, and social policies/reforms, are all essential to an active diplomacy for peace.

III. Conclusion

U.S. moral and strategic interests are both engaged. Doing nothing, or doing too little, are not responsible alternatives.

There are some who are inclined to support only economic assistance. Others are inclined to support only military assistance. There is, however, no realistic alternative to the balanced approach in the Act.

Our initiative is based on sound analysis. It is based on the consensus judgment that the area's problems have both indigenous and extra-regional causes.

Our goals are realistic. The region's most progressive, democratic forces strongly believe that we can work together successfully to strengthen the moderate center in Central America. These same people are convinced that our active participation will serve both to defeat communism and to bolster respect for human freedom in this critical part of our hemisphere.

The approach is right. Effective action must include a mix of developmental, political, diplomatic and security elements. There is no such thing as a wholly "economic," a wholly "political" or a wholly "military" solution to Central America's problems. These elements must be pursued simultaneously, equitably and humanely. Economies must be protected as well as developed. Governments must be worth defending. Home-grown poverty and Cuban-directed guerrilla warfare work in tandem; our policies must address both.

Finally, I hope that your consideration of the Bill will be infused by the Bipartisan Commission's unanimous conclusion, a conclusion that guided its preparation and which is worth quoting in full:

> "The Commission has concluded that the security interests of the United States are importantly engaged in Central America; that these interests require a significantly larger program of military assistance, as well as greatly expanded support for economic growth and social reform; that there must be an end to the massive violation of human rights if security is to be achieved in Central America; and that external support of the insurgency must be neutralized for the same purpose."

MAJOR OFFENSIVE BY GUERRILLA FORCES

Senator KASTEN. Mr. Secretary, thank you.

I was just noting that some of the people in the back of the room are having a very hard time hearing. You might want to pull the mike up a little bit closer.

You said in your testimony that, and we have read in the newspaper that the guerrillas were gearing up for or likely to be gearing up for a major offensive. Could you give us more information as to why we believe that they are gearing up for a major offensive? Have we seen increased activity in other countries in the area?

You referred briefly to the kidnapping of the youths. Maybe you could explain that in more detail, as well.

Mr. DAM. Well, there has been a remarkable pattern there of kidnapping of youths. They are then brought into the guerrilla-controlled territories. We see a pattern of taking youths by force and then taking them off at least to guerrilla-held territories and perhaps further for training. There has been an increased incidence of this kind of kidnapping.

We also have some intelligence which we would be very pleased to brief you or the members of your Committee at their request on, either in closed session or in private briefings, which we cannot go into here in open session.

Beyond that, the guerrillas themselves have indicated that they plan to continue their pattern of disruption and attack on the economy.

TRIAL OF THE NUNS' CASE

Senator KASTEN. Mr. Secretary, one of the key parts of the program or at least the political and congressional support for the program is the question of human rights, and particularly the judicial system. It is my understanding that the trial of the nuns' case was to take place today. Do you have any more information on that? I heard a brief report saying that it might be delayed because of the difficulty in ensuring the safety of the jurors.

My understanding is that in the process there, the investigation may take months, but in fact the trial would be just a day or maybe even a couple of hours. Could you tell us any more about the nuns' case, particularly because we have fenced a percentage of the military assistance money that came from this committee subject to a resolution of that case?

Mr. DAM. Well, I have not seen the report that you referred to. The case is scheduled to begin today. There is always a question about all of the jurors being there and so forth. I think there have been extensive preparations, however, to safeguard the trial.

We have in fact been involved, as a result of some funding made available by the Specter amendment, in training people to provide—Salvadorans—to provide security, and that is a complicated matter. It involves not only the physical security, but assuring that there are lights in the courtroom and all the rest.

The pattern of trials is quite different from ones we are accustomed to in this country, particularly in the examination and cross examination that we see in fictionalized television trials. It is a more European system in which the judge is charged with the presentation of the evidence to the jury, and in fact the evidence is pretty much read to the jury rather than the use of live witnesses. Therefore, it does not take all that long. Exactly how long it will take, I cannot say, but certainly no more than several days, and it could be much shorter.

Senator KASTEN. Senator Inouye?

MEXICO'S ROLE IN CENTRAL AMERICA

Senator INOUYE. Mr. Secretary, on May 12, 1983, before the untimely death of Henry Jackson of Washington, he gave a speech calling for the creation of this Bipartisan Commission, and noting that Mexico contained 79 percent of the land mass and about 76 percent of the population in Central America, he said the following: "I am convinced that unless the United States works with Mexico, none of the nations of North and Central America can face the future with calm and confidence."

And he went further to say that Mexico was a key to maintaining stability in the region. Are you satisfied that Mexico and the United States are working together in trying to resolve the problems of Central America?

Mr. DAM. We had very good meetings when President de la Madrid was in Washington this past week. We discussed fully the problems of

Central America. There is no doubt that there are some differences in perspective, but I do not think that there is any difference in objective, nor is there any difference between us about the importance of the Contadora process, which we fully support, and he has been very active in creating and steering that group.

When President de la Madrid was here, he emphasized that we must see this problem in large part as economic. That is fully in accord with the recommendations of the Bipartisan Commission, and it certainly is borne out by our own approach and requests that we are making, which are predominantly economic requests.

Senator INOUYE. Does the Mexican president concur with us in the matter of the Contras and our military posture in Central America?

Mr. DAM. Well, of course, the bill that we have before us now does not involve that issue, but nevertheless I want to be responsive to you. I think there may be some difference of opinion. No one has ever suggested that we do not each have strong views with regard to Central America.

Senator INOUYE. What sort of assistance does Mexico provide the Sandinista government?

Mr. DAM. I am not really prepared to address that. I would be relying on memory. I think that one of the important areas of support has been in providing very, very liberal credit, to say the least, with regard to oil shipments, but beyond that, I am not really in a position to address that question. And that is an arrangement that goes back quite some time.

My impression is that it goes back probably to the period in which we, too, were giving assistance to the Sandinista government, and we, of course, terminated that assistance, and my impression is that that assistance by the Mexican Government has also been sharply cut back. But again, I am relying just upon my impressions. I could provide more specific information for the record.

[The information follows:]

MEXICAN ASSISTANCE TO NICARAGUA

According to the Nicaraguan press, Mexico was providing Nicaragua with 15,000 barrels per day of petroleum, as of August 23, 1983. By February 11, 1984, Mexican oil deliveries had dropped to no more than the 7,500-barrel-per-day range. We believe that the total value of Mexican oil shipments to Nicaragua since 1979 has been on the order of $300 million.

DEBT CRISIS IN LATIN AMERICA

Senator INOUYE. President de la Madrid, in addressing a joint session of Congress, said the following: "External indebtedness, high interest rates, and the growing protectionism practiced by the advanced economies are the cause and effect of the crisis." Are we considering a moratorium on debt repayments in order to give these countries some breathing space in which to recover?

Mr. DAM. That is a very complicated subject, and that has been much discussed today. I am sure that if we discussed with other developed countries in the context of the preparation, the moratorium is one idea.

Another idea that has been discussed very much is the question of putting a cap on interest rates with the capitalization going into principle.

Let me say that the real problem of the less developed countries is to assure a flow of new money to them so that they can develop. That money has to come essentially from private banks, so the question of capitalizing interest rates is really a question for the private banks. If they see fit to do so, then in their own interest, in order to assure the further development of these countries, that would, of course, be something that we could endorse.

I think the question, though, is sometimes put in terms of whether or not we should somehow or another try to coerce banks into one or more of these positions, and I think that is a much more problematical approach.

DEATH SQUAD ACTIVITIES AND CORRUPTION

Senator Inouye. I have suggested in the past that we must be prepared to withdraw from El Salvador if that country fails to curb corruption and to dismantle the death squad activities. What is your position?

Mr. Dam. I think those are two separate questions, and I would like to address them separately, if I may. They are a different level of magnitude and seriousness. The death squad question is one on which we have been very clear. Vice President Bush went in December to El Salvador, and he made unmistakably clear the President's position and his position and the official position of the administration that the death squad activity has to stop.

We support conditionality in that respect. What we have been concerned about, as you know, Senator, has been the extent to which it is useful to lay down in great detail in statute particular conditions and then make the funding subject to reporting to the Congress, because all that does is to remove from President-Elect Duarte the true leadership capacity by putting him on a kind of a short leash and making him appear to be somehow or another a creature of the United States or the U.S. Congress.

So, we feel very strongly that the death squad activity has to stop, and has to stop immediately, and I might say that the level of such activity is down drastically. The whole question of killings is similarly one in which there is relatively a good report in that the level of activity is much lower than it was a few years ago.

With regard to corruption, corruption, of course, is a problem in many countries. It is not unknown in our own country, in state and local governments, for example. So we cannot take an absolutist position. We believe that we have to manage our own aid programs in such a way that the opportunity for corruption is minimized, and the Agency for International Development has taken many steps in that direction.

There are problems such as overinvoicing and so forth, which is a practice, I suspect, that is not unknown in many countries of the world, and we have taken many steps in that direction.

Senator Inouye. Do you believe that the people out there take us seriously?

Mr. DAM. I think so, and I think that they recognize, and I am sure this is true of President Duarte, that his ability to command the support of the American people depends upon his ability to eliminate the death squad activities.

MILITARY ASSISTANCE AND POLITICAL SOLUTION

Senator INOUYE. This is my last question in this round, sir. During the past 3 years, U.S. assistance has more than doubled the size of the Salvadoran military forces. The armed forces of Honduras have increased by 30 percent. Our assistance to the Salvadoran military forces has indirectly enabled the Contras to grow from a few hundred to a well-equipped force of about 15,000, and military assistance to El Salvador has grown from about $6 million in the last full year of the Carter administration to this year's total of $243 million.

Do you not believe that the statistics indicate that the administration sought a military solution other than a political solution in Central America?

Mr. DAM. Well, I think it is important to put those figures in perspective, and one perspective is to compare the military split with the economic split. The ratio has been roughly $3 of economic aid to $1 of military assistance, and the proportion that went to economic assistance would rise, and the amount for military assistance would fall proportionately under the recommendations of the Bipartisan Commission.

I think we also have to put it in perspective of what the Nicaraguans have done, and there we see a sixfold increase in the number of people under arms, so we have a shift in the military balance in the region which is not due to U.S. policy, not due to the Salvadoran government, not due to the Honduran government, but due to the Nicaraguans and the support that they have been receiving from Cuba and from the Soviet bloc.

Senator INOUYE. Finally, do you believe we are closer to peace in El Salvador today than we were 3 years ago?

Mr. DAM. Well, I think in one important sense we are, because we see now a recognition by President-Elect Duarte, by the Bipartisan Commission, and, I think, generally that there has to be an approach to the economic problems and to the human rights problems simultaneously with a shield against the disruption of the economy and the disruption of the democracy there by the guerrilla activity.

I also think we see more clearly today than we saw a few years ago in this country that the guerrillas are not a purely indigenous Salvadoran movement, but on the contrary are heavily supported in many ways from outside. And so I think all in all the conditions are much riper for a resolution of guerrilla activity there.

And we also have in the Contadora process a recognition that the problem is largely a regional problem, and in the end we are going to have to have some kind of regional solution.

Senator INOUYE. Thank you very much.

Senator KASTEN. Senator Specter?

Senator SPECTER. Thank you, Mr. Chairman.

RELEASE OF U.S. ASSISTANCE TO EL SALVADOR

Secretary Dam, the trial of the defendants in the case involving the four U.S. churchwomen starts today, and under the provisions of the 30 percent retention last year, once there is a verdict, some $19 million will be liberated for U.S. aid to El Salvador. Will the freeing of those funds enable you to reduce the request for the $61 million which is currently pending for El Salvador?

Mr. DAM. Oh, no. As a matter of fact, we have been confident, and we have said repeatedly that there will be a trial in this case, and the proposal for the emergency, not only for the emergency of the $61 million but also for our supplemental assumes that that money will be freed up.

Senator SPECTER. The trial process in El Salvador calls for a continuous trial. They have never had a trial that has lasted longer than empaneling the jury, presentation of the evidence, and having the jury conclude. I had an opportunity to see Judge Rauda's courtroom, and it is a very interesting courtroom.

What is your expectation as to the procedure if the case goes longer than 12, 14, 16, 18 hours? Are they going to be able to complete it within the confines of their existing procedure with no break from start to end?

Mr. DAM. I do not really know. I cannot really address that question, because I am not that close to the judicial practice in El Salvador, but that is the general approach, so I assume they will be able to do so.

As I indicated before, attention has been given to such things as making sure there is no disruption of electricity and so forth for the courtroom. It must be anticipated possibly that they might be going into the evening hours.

IMPROVEMENTS IN THE JUDICIAL SYSTEM

Senator SPECTER. Secretary Dam, in our budget for fiscal year 1984 we conditioned or earmarked $3 million of the appropriation for improvements in the judicial system as it applies to try to do justice for Salvadoran victims. How effectively has that $3 million been utilized, in your judgment?

Mr. DAM. Well, I think rather effectively, and if you will permit me, I am prepared to address some of the uses that we have made of that money.

Senator SPECTER. Please do.

Mr. DAM. First of all, a special investigative unit is in the process of being established. It is intended as a tangible commitment to the elimination of death squads and terrorist violence. This is designed to be used in criminal investigative services which would support the Salvadoran courts in prosecuting cases involving terrorist activities.

Senator SPECTER. How far along is that unit in terms of being operable?

Mr. DAM. It has six members currently assigned, and it is our understanding that that size will be increased. I think this is an important experiment, and I think it is important to succeed, and I think that its success can be a very important step with regard to what the U.S. Government can do to assist countries in the region generally with these kinds of problems.

Also, beyond that, we have used this money for training, training of the special investigative unit, but also training of other law enforcement agencies. These needs were initially surveyed by an FBI training needs assessment team, and then we used training money for various groups, including—though perhaps I should say this a little differently. Part of the money was then used for a judicial protection unit.

What was done here was to take a select group of members of the Ministry of Justice prison guard system and bring them to the United States for training. Sixty were trained, and they are now available to do things like protection of the jurors and the court in the churchwomen's case.

That will all be—practically all of that will be funded out of this $3 million, and possibly $700,000 has been budgeted for this kind of training.

Finally, we have been working with a commission created by the President called the Executive Legal Advisory Commission, which has worked to produce a new emergency law which is intended to protect the rights of prisoners while they are being held pending trial, and the commission will go on to review the existing Salvadoran laws in the general area of the criminal justice system, and also to work on the constitutional reform.

I can give you more information for the record if you would like.

Senator SPECTER. I would like that. That earmarking has been helpful in moving along the judicial system in El Salvador?

Mr. DAM. We have certainly tried to make the best possible use of this assistance.

[The information follows:]

USE OF $3 MILLION APPROPRIATION FOR IMPROVEMENTS IN JUDICIAL SYSTEM

Three key projects funded under this appropriation are contributing to the establishment of an effective judicial system.

(1) A Special Investigative Unit (SIU) is in the process of being established. The SIU is a tangible commitment by the Government of El Salvador to combating death squads and terrorist violence. This unit is being designed to be capable of conducting successful criminal investigation services, and thus directly support the Salvadoran courts in prosecuting cases involving terrorist activities. There are currently six members assigned and the SIU staff will be increased as rapidly as possible.

Training needs of the SIU—and of all law enforcement agencies in El Salvador—were reviewed by an FBI Training Needs Assessment Team, which visited El Salvador in January, and the Executive Officer of the SIU, as well as two officers from the National Police, attended the first Spanish-language session of the FBI's Caribbean Police School. The needs assessment was funded from moneys made available by the Specter amendment. We are also working with the Government of El Salvador to determine training and commodity needs which can be met with USG funds under this appropriation. A budget for the unit is under development.

The SIU will be an integral part of the criminal justice system. President Duarte is strongly supportive of this project, and expects to sign very soon a decree formally establishing the unit.

(2) A Judicial Protection Unit (JPU) has been created with a select group of members of the Military of Justice prison guard system. A U.S. Department of Justice team, including representatives from the Marshals Service, traveled to El Salvador last summer and again this March to assess training and equipment needs of the JPU. Earlier this month, the initial group of 60 JPU members recruited for this assignment completed training offered by the Marshals Service and other USG agencies at the Federal Law Enforcement Training Center at Glynco, Ga. Prior to their training, JPU members provided security at one sensitive trial (not involving U.S. citizens), and the newly trained unit provided security at the trial of the U.S. churchwomen's case on May 23. All costs to train and equip the JPU are being covered by Specter amendment funds. Procurement for the unit is underway. The preliminary budget developed by the U.S. Marshals Service calls for an initial expenditure of approximately $765,000, and this project grant between the U.S. and GOES will be signed within the next week.

(3) An Executive Legal Revisory Commission, created by President Magana, has worked informally to produce the new Salvadoran emergency law (Decree 50), designed to better protect prisoner rights by establishing a strict timetable for completion of various phases in the judicial process. The Commission's principal task is to comprehensively review existing Salvadoran laws and procedures governing the legal system as well as institutional deficiencies, and draft important new legislation, such as that necessary to implement the constitutional reform of a National Judicial Council to depoliticize judicial selection. Activities of the Revisory Commission will be funded from Specter amendment moneys, in accordance with a project agreement between the GOES and the Agency for International Development, which is currently awaiting approval by the new administration of President Duarte.

WAR POWERS ACT

Senator SPECTER. Secretary Dam, the President spent considerable time yesterday on the issue which is a potential deployment of U.S. troops in Central America, and the potentiality of that—he said he has no intention of doing so—and the possibility of the deployment of U.S. military force in the Mideast with their problem arising out of the Iran-Iraqi war.

We have had considerable discussion in this subcommittee on the impact of the War Powers Act when Secretary Shultz and Ambassador Kirkpatrick were here. There has been some thought as to whether it might not be preferable in the overall scheme of things to have more congressional involvement at the outset on a delineation of authority for circumstances where U.S. military force might be employed.

Secretary of State Shultz was very critical of congressional reaction when the negotiations were under way with the Syrians, saying that the rug was pretty well pulled out from Ambassador Rumsfeld and others who were trying to negotiate at that time.

The War Powers Act has really satisfied no one. The original draft as proposed by Senator Javits and others would have required congressional approval in advance, absent certain limited circumstances, and Senators Cranston, Eagleton, and Stennis have introduced a bill along that line. Last week I introduced a bill which would call for congressional authorization in advance, absent certain emergency circumstances.

My question turns on an effort to get broader based approval or support in advance on the policy where Congress would be committed to some use of force if that were possible, consistent with the congressional authority to declare war, and in line with a general sense that the Congress, with our constant contacts with our constituents, returning from our States or our districts having some sense as to what the American people will support by way of the use of force, and at a time when there is still an opportunity to debate and discuss the Mideast, and debate and discuss Central America.

Do you think it might be useful if Congress were to attempt to define circumstances under which the Congress would authorize the use of force as opposed to having the President make the decision on his own, and then come back under the War Powers Act 60 days later where the President thinks the War Powers Act is unconstitutional and perhaps get into another situation like we were in Lebanon, where the Congress, although authorized, the War Powers Resolution eventually shifted away and put the administration in a very difficult situation, where they really had to withdraw?

Could we usefully define at this time, while we have time for analysis, some parameters where we would back Presidential use of force either in Central America or the Mideast?

Mr. DAM. Well, I do think that it is very useful for the executive and the members of the legislative branch to have a common understanding of the problems in different parts of the world. My only question is whether that is done through the consultative process or through the legislative process.

CONSULTATIVE PROCESS

Senator SPECTER. In the consultative process, who is going to consult for the Congress?

Mr. DAM. Well, I think, as a matter of fact, there has been quite a good deal of consultation, and I think, for example, with regard to the Persian Gulf, there is quite a good deal of consultation going on, and will be going on within the next few days on that subject.

Not that we are considering at this point the use of or the deployment of U.S. troops, and certainly not the use of force at this point, but we are trying to consult with the various committees and with the leadership and so forth about the Persian Gulf situation.

But let me say there is, of course, a further constitutional point that I know you are very well aware of. There is a question of which is the executive branch of Government, and what the constitutional powers of the President are, and whether a requirement that in order to move U.S. troops around Congress would have to give preliminary approval, whether such a provision would be constitutional, because we all know that is a problem.

It has been a problem raised by every administration, Democratic or Republican, since the War Powers Resolution was passed. I have my doubts that it is possible for the United States to carry out a diplomatic approach to serious problems if in fact we are going through a legislative process in order to see whether or not the United States can deploy troops to an area where there is violence.

CONGRESSIONAL AUTHORITY TO DECLARE WAR

Senator SPECTER. One final question, if I may, Mr. Chairman.

Where the President has to act in an emergency, I think most of us would concede the executive power requires that. Some of us have been trying to define what would be an appropriate congressional role in authorization. You talk of the executive power of the Constitution. Some of us wonder what has happened to the congressional authority under the Constitution to declare war in the face of the Korean War and the Vietnam War and other actions which probably constitute wars without a congressional declaration.

I have wrestled with that and made an effort by no means finally, and I have asked Senator Percy to hold hearings on the subject. I think it would be very useful. He said he will try to find time to do so, to have an exploration of these issues, to see if we cannot find some mechanism.

But in my efforts, as a starting point, I have tried to structure a 5-day timetable which would define a period where the Congress might act, 2 days of submission to each House and a day for conference, so that the President would retain the authority to act on an emergency if action were necessary in a shorter period of time than 5 days.

But if an answer could wait for 5 days—I think we probably would have 5 days from now on, say, an answer in Central America or in the Mideast. We might not, but we probably do.

What would you think of that sort of a structuring of the definition of an emergency, where the President could act if something had to be done sooner, or the Congress could act if it could take 5 days for the congressional authorization of a specific use of military force?

Mr. DAM. Let me say, first of all, there is a constitutional question which I do not want to debate with you. We would have to look at that and see how that met the constitutional tests as best we can define them.

With regard to the practicality, I think you are on the right track in trying to do something that requires the Congress to act. The worst thing is inaction in a delicate situation, because if the United States is perceived not to be able to make up its mind, and a parliamentary device is being used to avoid taking a position one way or the other, that is the worst of all possible situations, it seems to me, for the United States of America.

So, if hearings are held on this subject, we will, of course, take a close look at it, and give you our best judgment about the proposal you have, and I would be pleased to talk with you also privately about it, and I am not yet familiar with the details of your proposal.

Senator SPECTER. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

Senator **Kasten**. Senator Johnston?

SUPPORT FOR PRESIDENT DUARTE

Senator **Johnston**. Thank you, Mr. Chairman.

Secretary Dam, I have been a very strong supporter of conditionality in our aid to El Salvador, and I think a very good case can be made that that has been a very constructive role for the Congress to play, and indeed President-Elect Duarte told me that himself, that is, that past conditions when he was a member of the junta were very constructive.

However, I must say I think that to put conditions on the aid now smacks of a certain degree of arrogance and perhaps even irony, considering the situation today with his election. I mean, for us to be telling President Duarte that there are great dangers in the right wing and in the military, and in torturing and in death squads, when you sit across the table from a man who has lost his fingertips through torture and was almost murdered himself, and was imprisoned is ironic, seems to me he knows very well the dangers of the right wing and of the military.

When you tell this man, who first proposed land reform, who is the hero of the campesino organizations, who is the one with more dedication to and historical involvement with land reform than any other man in our country or theirs, that aid will be conditioned on stronger land reform is quite ironical.

So, I will not vote for any conditions on aid to El Salvador. To the contrary, I think that if we cannot support this man, Duarte, there is no one on earth that we can support. There is no one with a clearer record of dedication to social reform, economic reform, to bringing the campesinos, the neglected sector in El Salvador, into the mainstream than Duarte.

I hope he succeeds. I do not think we can expect the impossible from President-elect Duarte. After all, the right wing death squads do not all originate from the president's office. In fact, I think probably none have originated from the president's office, and they do not all originate with the national guard or the military or the treasury police.

There is a whole history of violence that is not going to be that easy to eradicate immediately. I mean, we have not eradicated the Mafia death squads in this country, if that is what they would be called. I guess the only country that did that successfully was Argentina.

In any event, I just wanted to make that point, because I think it needs making. I must say I was changed from a skeptic to a strong supporter of the President by my trip down there to El Salvador.

CONTINUATION OF INTELLIGENCE OPERATIONS

Let me ask one question. We have an extensive operation, intelligence operations at Tiger Island and elsewhere. Do we plan to continue these?

Mr. **Dam**. I am not sure that I can address that subject, Senator, and I would like the opportunity to provide you that information, if I may.

[The information follows:]

TIGER ISLAND OPERATIONS

As you know, we are keeping the responsible intelligence oversight committees fully informed regarding intelligence issues. I hope that you would agree with me in maintaining this oversight channel rather than addressing such sensitive issues in open hearings.

OPERATIONS IN EL SALVADOR

Senator JOHNSTON. Let me say that there was also some deep irony in some of the operations we watched. We were at six different locations in El Salvador. We came into areas right before and right after they had had operations. They have some of the most sophisticated intelligence in the world provided to them by the United States, through Washington and back around through Salvadoran headquarters, about the location of guerrillas.

But the irony of their not having the trucks to go out on operations is really incredible. Through satellites and through Washington comes information, and yet the Salvadoran army does not have the trucks to go out. They must hire school buses or local trucks to go out and conduct their operations.

Now, those who think we have overarmed El Salvador ought to go out in La Union and the other areas where we were, where they simply do not even have trucks. I think we ought to do that before we give them helicopter gun ships, and I am not necessarily for helicopter gun ships, but I think we ought to give them at least the trucks with which to go find the guerrillas, and tell them where the guerrillas are.

Have we filled out the details of the Bipartisan Commission plan of aid to Central America, the $8 billion program? Is that being filled out? What is being done on that?

Mr. DAM. The details of that have been provided to the Congress, as part of the President's proposal which was made in February. They are broken down by program, broken down by country, and broken down by time period. We can, and I suspect we have, provided that already to the staff of the committee, and we are, of course, prepared to address it.

Let me say that it is designed to be a comprehensive approach to the problems of the area, to involve not only military and economic assistance, but also different kinds of economic assistance, and various kinds of training and the like.

INSTABILITY IN PANAMA

Senator JOHNSTON. One final question with respect to Panama. Do you see continued instability there? Will Barletta really be able to govern effectively? Or will the national guard continue to provide that country with effective government? Is there anything we can do about it?

Mr. DAM. Well, it was a close election, but it was an election. It was a democratic election. And I see every reason to believe that there certainly would not be any interference of the military forces in the governance by the new leader. There may be other kinds of violence, and that violence, of course, has to be met.

Senator JOHNSTON. You do not expect any interference by the military?

Mr. DAM. I do not. I say there are, however, other kinds of violence, and that violence has to be met, but we believe that the capacity to maintain order is there, and we have confidence that law and order will be maintained there in that democratic government.

Senator JOHNSTON. Thank you, Mr. Chairman.

REPORT ON CENTRAL AMERICA BY SENATOR JOHNSTON

Senator KASTEN. I am going to, before we go to Senator Leahy, read one section to the Secretary of the report on Central America by U.S. Senator Bennett Johnston.

> A thousand feet up, 100 miles per hour, a very difficult target, had to be shooting many, many rounds. I asked General Gorman of the U.S. Southern Command in Panama how many men he thought were shooting at us. He said maybe a couple of hundred. The air was just filled with bullets. We could hear them whizzing by. And it was a frightening sort of thing. I can remember sitting on the seat and thinking, how can I make my rear end smaller?

Senator JOHNSTON. I did not succeed. [Laughter.]

Senator KASTEN. Senator Leahy?

Senator LEAHY. Thank you.

ELECTION IN PANAMA

Mr. Secretary, you just said that the election in Pamana was a close election and a democratic election. Was it an honest one?

Mr. DAM. Certainly in an overall sense it was an honest one. I am not prepared to say that there were no problems.

Senator LEAHY. Was the result an honest one?

Mr. DAM. I believe so.

Senator LEAHY. So even though it was close, it was honest enough so that that would not affect the result, the end result?

Mr. DAM. Certainly that is my belief and my understanding, yes.

Senator LEAHY. So that there should be no question on the part of anybody in this country or in Panama about the results of that election? That is the State Department's position?

Mr. DAM. Yes; we are, of course, open to evidence.

Senator LEAHY. I am not debating the point with you. I just want to make sure that I understand that you and the State Department feel everybody can rest easy on that one. Thank you.

GENERAL WOERNER'S REPORT

Mr. Secretary, you are familiar with General Woerner's report, are you not?

Mr. DAM. Generally. Very generally.

Senator LEAHY. I beg your pardon?

Mr. DAM. Only very generally.

Senator LEAHY. So that the subcommittee will understand, General Woerner's report, of course, is a report done by General Frederick Woerner, who spent 8 weeks in El Salvador with a 7-member team, and he has done an upgrading of that report since, because it is generally considered to be the definitive report on the abilities of the Salvadoran military to prosecute a war in El Salvador.

Without going into anything that might be classified, can you address yourself to the general conclusions of the Woerner report?

Mr. DAM. I would like to have an opportunity to provide you with a considered response to that question, if I may.

[The information follows:]

WOERNER REPORT CONCLUSIONS

The report to which you refer was done in 1981 for the Salvadoran General Staff by Brig. Gen. Woerner at SOUTHCOM and was updated in late 1983. The general conclusions of the report recommend that the Salvadorans concentrate on the National Plan for restoration of government authority and services in key departments. The concept of the plan is, of course, considered by the Salvadorans and by us in the development of military equipment and training programs.

Senator LEAHY. Mr. Chairman, I wonder if it might be possible to have General Woerner come, if we are going to be appropriating a significant amount of money down here, if it might be possible to have him give us his thoughts.

Senator KASTEN. The subject of this hearing was, of course, the Kissinger Commission report, and I think that that might be appropriate, and I do not know if that would have to be a classified or an open hearing, but let us explore that.

Senator LEAHY. I am not asking the Chairman to make a decision on that right at this moment, but I think that there is a distinct relationship between the two. In the Department of State, when you decide what requests to make of the Congress in foreign aid for El Salvador, you take into consideration such things as the Woerner report.

Mr. DAM. We have a fairly substantial unit——

Senator LEAHY. I beg your pardon?

Mr. DAM. We have a fairly substantial unit in the Department of State called the Military Bureau which works very closely with Under Secretary Schneider, who is in charge of the security assistance, and all of this information is factored into our position.

FALL OFFENSIVE

Senator LEAHY. The administration said they expect some type of a Tet offensive this fall. It is ironic that the administration used this analogy in this situation anyway. I have heard the expression "Tet offensive" used by members of the administration, and that is the only reason I used it here.

Do you feel that there is a possibility of that type of strong offensive on the part of the guerrillas this fall in El Salvador?

Mr. DAM. Yes, we do. There is a fair amount of intelligence to that effect which I cannot discuss here, but I understand the Intelligence Committee has been briefed on it.

Senator Leahy. We will be discussing it this afternoon.

Mr. Dam. And I believe Secretary Shultz will be available for that.

COVERT AND OVERT AID TO SALVADORAN ARMED FORCES

Senator Leahy. Do you know what the needs of the Salvadoran armed forces will be this fall? How many new helicopters or bombs? Is that something you could testify to in this open session?

Mr. Dam. I could, but I do not have available the backup for the specific aspects of this overall package which is proposed to the Salvadoran military needs. Now, we have, of course, for the emergency supplemental, we have provided some detail of what we would be spending money on, and obviously for the overall supplemental and for 1985 there has been a congressional presentation document prepared, which this committee has, which covers these matters.

Senator Leahy. Have we been working with any other country to provide aid overtly or covertly to El Salvador and to El Salvador's military?

Mr. Dam. Well, we have not—I am not aware of any efforts to provide aid covertly through other countries to El Salvador. Insofar as encouraging other countries to provide assistance to El Salvador, we of course have asked them to provide assistance generally to the government, but whether military assistance has been discussed, I am not certain.

We have argued to our European allies that assistance to El Salvador is highly desirable, and we think that the emphasis on Nicaragua and many of their programs showed a need for assistance. I think that predominantly had to do with economic assistance.

I do not think there is any government that has proved itself particularly interested in providing military assistance to El Salvador, so I am not able to answer your question.

Senator Leahy. Well, let me make it more specific. Have we directly or indirectly asked Saudi Arabia to provide aid to El Salvador?

Mr. Dam. Not that I am aware of.

Senator Leahy. Have we directly or indirectly asked Israel to provide aid to El Salvador?

Mr. Dam. We are talking now in each of these cases, I think, about military assistance, because we have asked many countries, and I have addressed myself to this. We have asked many, many countries to give economic assistance to El Salvador, and I would not be able to list the number of countries involved, but we have very frequently discussed that with other governments.

Senator Leahy. Have we told any country that if they provided either military or economic assistance to El Salvador, that we would in any form make it up to them either by returning the money or credits or materiel or anything to them to come anywhere close to balancing the balance sheet for what they have provided El Salvador?

Mr. Dam. No; that is not our policy, and I am not aware of any such discussions.

Senator LEAHY. And we have not asked Israel to directly or indirectly, give military aid to El Salvador?

Mr. DAM. No; I do not believe so. I am not aware of any such request. I think there obviously have been very many discussions over a long time with Israel, and I cannot say what has been discussed in every single meeting of some U.S. Government official with some official from Israel, but that is not part of our policy.

Senator LEAHY. If upon reflection you find that that has been done, and I do not mean to single out just Israel by any means, of course, but Israel or Saudi Arabia or any other country, will you make sure that an updating of your testimony is given to the committee?

Mr. DAM. Yes; I will. Let me say that Israel has its own programs of assistance, and they do not clear them with us, and we sometimes become aware of what their programs may be, but certainly with regard to the specific question you asked, we certainly will look into it, and if we have anything further to say, we will provide it to you.

Senator LEAHY. What countries other than the United States are giving military assistance to El Salvador now?

Mr. DAM. We are not aware of any other country, but we will look into that. And as I say, if we are able to provide you additional information, we shall do so.

[The information follows:]

OTHER COUNTRY MILITARY ASSISTANCE TO EL SALVADOR

Small numbers of Salvadoran military officers are receiving training in a number of Latin American countries as well as Taiwan. To our knowledge no countries other than the United States are providing military equipment to El Salvador.

Senator LEAHY. As far as you know, no country today other than the United States is giving military assistance to El Salvador?

Mr. DAM. That is my understanding, yes.

ESF FUNDING AND AUDITORS

Senator LEAHY. The Kissinger Commission recommends major increases in ESF funding, much more than developmental aid. President Duarte suggested Congress is interfering in requesting more auditors in Central Bank to monitor the U.S. funds. Do you agree with President Duarte in that?

Mr. DAM. I would like to ask Mr. Morris to address the question of additional auditors. He is the Deputy Administrator of AID, and I know he has been concerned with this issue. Let me say generally, though, that—and I think we have to understand that there is a natural resistance in these countries which we can understand if the situation were reversed, about an overlay of conditions and so forth.

But with regard to the specific question of auditors, I would like to ask Mr. Morris.

Senator LEAHY. You understand, do you not, Mr. Secretary, that one of the concerns we have, of course, each one of us, is responding to constituents, and the constituents ask us, well, gee, there is plenty of money, and either directly or indirectly it goes down there, and we get reports it goes into Miami banks, it disappears, and so on. Why are you doing this?

And of course it is a very political thing, and I know there have been times when I have strongly supported the administration's position. I found that within a matter of days the Republican National Committee, at the request of the White House, has sent letters blasting me for supporting the administration because of the foreign aid question.

So we get a little bit touchy on the issue. Naturally, of course, we will be asked to rise above politics to support the administration on these issues, no matter what they might do in return to us. But I was just curious what the position is in case we have to respond to—if the administration attacks us for backing the administration, we want to be able to show when we respond that we know exactly what their position is and how tight the controls are on the American taxpayers' dollars. That is the purpose of my question.

Mr. DAM. I understand.

Mr. MORRIS. Senator, there are roughly three sorts of auditors, to use the phrase loosely. The first are the Inspector General auditors, and they have conducted two examinations of the bank over a period of about 14 months, and at my request will be conducting a third this year.

Second, there are the local auditors, the CPA firms we hired out of counterpart funds to do post-transaction voucher reviews. They, too, are on the job and will continue.

I think perhaps the area you were referring to was the price-checking unit internal to the Central Bank, the now-famous Arthur Young management study. Among its many recommendations it suggested that that unit be strengthened in staff from 3 to 13. That has now occurred.

Senator LEAHY. There are 13 now?

Mr. MORRIS. There are 13, and have been for several months. That was done voluntarily, of course, by the bank, but with our vigorous encouragement. We met with President Duarte on Monday, and discussed the Central Bank evaluation and management reform with him, and he expressed not the slightest resistance, reluctance, or offense at the discussion.

Senator LEAHY. Thank you, Mr. Chairman. I appreciate the courtesy of letting me go over my time limit.

Senator KASTEN. Senator DeConcini?

Senator DECONCINI. Thank you, Mr. Chairman.

ESF FUNDING

Mr. Secretary, to continue the same line of questioning, are 13 auditors and the current monitoring requirements sufficient in your judgment to minimize the potential areas of abuse such as those that have been reported by the media?

Mr. MORRIS. Yes; particularly since we think those abuses were vastly exaggerated. In terms of the Inspector General, he has requested more auditors. In terms of the price checking unit, no further increase is recommended at this time, and in terms of our own locally procured auditors, we feel we have an adequate number to do our end of it.

Senator DECONCINI. Now, are there conditions on the assistance that we give, economic conditions, that require that El Salvador have these IG's and these monitoring devices, or is that all, as I think you said, voluntary?

Mr. MORRIS. Well, when I said voluntary, I meant that it was freely done. Obviously, we made it very clear that we thought it was an essential component to making our assistance wholly effective and to satisfying the Congress and the American people that that was the case.

Senator DECONCINI. Are you prepared then to make it a condition of the disbursement of funds, economic funds, that they continue with the 13 auditors and the other reforms that they have put in place?

Mr. MORRIS. Well, since most of these reforms are in place, it really would be an ex post facto imposition of conditionality.

Senator DECONCINI. I take it the answer is yes, that that would be a condition for aid. If they did not do it, you would withdraw the aid. Is that right?

Mr. MORRIS. We would certainly have to take another look at it.

Senator DECONCINI. As I understand it, there is going to be a substantial increase in aid to Central America based upon the Kissinger recommendation compared to what is going there now. Is that correct?

Mr. MORRIS. That is correct.

Senator DECONCINI. What are you going to do to attempt to ensure proper distribution and use of those funds in addition to what you have already done, or is that sufficient in your view?

Mr. MORRIS. No; it is not sufficient, but that is a broader question than just auditing, and I will begin by dealing with auditing. We are going to increase the Inspector General's staff by the amount he requested, and in addition we may increase it further. As to the work force, in general we are going to increase that by roughly 122 people in the region by the end of 1985. That will be a substantial increase in the size of our work force, that is, our own direct hires and contract resources.

We have just completed an exhaustive study of our work force requirements there in a special assessment team headed by Mr. Dwight Ink, who may be known to many of you. Your staffs will be briefed by him next week, as I understand it. We will submit a report to you of his findings shortly, and that report confirms our rough initial estimates as to manpower needs, but recommends further increases in the field which we can accommodate, so we have plans in place for not only gross increases but rather specific applications of certain specialties where needed.

INCREASE OF PERSONNEL FOR INSPECTOR GENERAL OF AID

Senator DECONCINI. When Mr. McPherson testified here, the chairman of this committee asked if there is anything in the AID proposal which would provide the Inspector General of AID with more personnel for his operation in order to cover adequately the increased programs which would go to Central America.

Mr. McPherson's answer then was no, there is nothing in the proposal now which would provide for any permanent increase in IG personnel. That has changed, I take it.

Mr. MORRIS. In a sense, no. If you mean the proposal before you, no, it is not a part of that. That is an internal management matter which we have resolved. That has been my area of responsibility, and I have been working with the Inspector General, and he has 11 authorized now for the region. He has requested six more.We have approved it.

Senator DECONCINI. Well, I am a little confused, because I only want to ensure before this Senator casts a vote on any part of this multiyear package involving billions of dollars, that we are going to have additional auditors and Inspectors General. Are you telling me that is what you are going to do?

Mr. MORRIS. Absolutely. We are going from 11 to 17 minimum. We have provided him open-ended funding to use U.S. accounting firms, which is permissible for Inspectors General as well as ourselves, under different sets of conditions to augment his force. Further, thus far in the last 2 years he has not seen fit to do so, but we have always made unlimited money available for him to do so when he is ready.

So, we will increase the direct hire staff by six and continue to make moneys available to augment his resources through U.S. auditing firms.

Senator DECONCINI. I thank you for that answer, and only want to leave the distinct impression that that is very important to this Senator. I have supported the President's Central American military and economic assistance, and am inclined to continue to do so, but I am very worried about the inability of that government and its infrastructure, banks, the Central Bank included, to be able to absorb it all. It would be a tragedy for the assistance program to turn out to be an embarrassment and a waste, and I am glad that you obviously have given a lot of thought to that process.

Mr. MORRIS. Yes, sir. In fact, it is a pleasure to report that there is a second Arthur Young study being negotiated at the request of the Central Bank to review the overall management of the bank and its performance since the last one was done, I think, last July. So, we will not only have that followup study and direct technical assistance to the price-checking unit which we will contract for shortly, but we will also have another IG audit and an increase in IG staff.

Senator DECONCINI. Thank you.

NONGOVERNMENT DISPLACED PERSON CAMPS

Secretary Dam, in my recent visit to Central America, I was impressed by the argument that our assistance for displaced persons in El Salvador should not just go to the Government of El Salvador, because many of these displaced people, at least in the refugee camp that the Catholic Church operates, are very fearful of the Government, and yet I also understand that those private organizations running the camps are unwilling to accept U.S. funds directly.

Is there anything that we can do through perhaps other charitable groups or religious organizations to attempt to channel some U.S. funds for those privately run camps, the non-Government camps? Are you familiar with the problem?

Mr. Dam. I am generally familiar with the problem, and I know it has received a good deal of attention from people concerned about refugees and the like, but I am not able to address it in any detail. I would be glad to provide you information.

[The information follows:]

U.S. Efforts to Provide Assistance to Privately Run Camps for Displaced Persons

We have explored these possibilities with the Catholic Church in El Salvador. We have put out tentative feelers as to how we can help church groups in El Salvador who are helping people in sanctuary. There are some indications that as a result of the election in El Salvador, more private voluntary organizations will become involved in assisting displaced persons. We do not feel that we should close the door on people based on whether they are registered with the government. We try to keep aid apolitical, but private groups are often political, and may deliberately refuse assistance on the basis of some hidden political agenda. We contribute one-third of International Committee of the Red Cross (ICRC) funding. Under ICRC programs, no strings are attached to aid recipients.

Under the current displaced persons project, the following private voluntary organizations have been providing assistance to both the registered and unregistered population: (1) Salvadoran Red Cross, (2) Salvadoran Green Cross, (3) CESAD, (4) Caritas, (5) Fe y Alegria. Each of these organizations will continue to provide assistance under the new expanded project amendment. In addition, AID has sought to involve Project HOPE, Caritas, and the Catholic Church in the project. We expect the latter to participate in the expanded displaced persons program scheduled to begin in July/August 1984. We have also explored the interest of several other U.S. private voluntary organizations without success thus far.

In El Salvador, support grants from the AID Health and Jobs for Displaced Persons Project were made to a number of indigenous private voluntary organizations during the last 18 months. All of these institutions are involved to a varying degree in providing assistance to the displaced population. The private voluntary organizations and the U.S. support they receive for fiscal year 1984 are listed below:

Salvadoran Red Cross	$250,000
Salvadoran Green Cross	50,000
Caritas	65,000
CESAD	65,000
Zaragoza Orphanage	20,000
San Miguel Orphanage	8,000
Fe y Alegria	48,735
Total	506,735

Senator DeConcini. I appreciate that. I raise the question because I was speaking with the Archbishop down there, and he was very interested in getting some assistance. He said he would look to the Council of Churches and the Council of Bishops and other religious organizations for assistance, and I asked him if he would accept direct Government aid. He said that he could not accept such aid in the form of direct disbursements, but it certainly could come to them in many other forms, and would be very helpful. Believe me, in my observation help is needed.

Mr. Dam. Well, I would suggest perhaps Mr. Morris might be willing to address that. I do know that some of them have not been particularly interested in U.S. aid, and so we have got a situation in which some of these groups feel that there would be a certain political problem in receiving the aid. Could you address the question further?

Mr. Morris. We are proposing increased funding for assistance to displaced persons. We have spent $10.2 million since 1982. We anticipate a funding level of $10 to $15 million in 1984. So that is almost a doubling on an annualized basis, and of course we are providing——

Senator DeConcini. But that is going to either the Government-run refugee camps or the International Red Cross.

Mr. Morris. That is true, and State provides funds to the International Red Cross, but I was about to add we also provide title II food to the Catholic Relief Organization (CRS) which they use in their assistance effort, and certainly if they could use more I am sure we would make it available.

Senator DeConcini. Are there any other funds that can be made available to them?

Mr. Morris. There are no other funds made available to them now.

Senator DeConcini. Could there be?

Mr. Morris. Certainly we work with their affiliate, CRS, throughout the world. They are one of our major PVO's, they and CARE.

CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

Senator DeConcini. Thank you.

The Central American Development Organization is an interesting proposal that the Kissinger report puts forward, and I presume, Mr. Secretary, you have endorsed that concept and idea.

Mr. Dam. Absolutely.

Senator DeConcini. How is this going to conflict, if at all, with the many other Central American and Latin American structures that are there to finance private and public efforts? Do you see any problem in coordination between the CADO and some of the existing institutions and organizations that are there? What are you going to do about it?

Mr. Dam. I can imagine that at some time in the future there might be some conflicts, but I do not imagine and I do not anticipate any, at least at the outset. The notion is that this organization would be a way in which there would be some local Central American input, particularly input from the private sector, into the use of American funding, U.S. funding.

So that the way it would work would be that there would be this private sector involvement in looking at the objectives and priorities with respect to 25 percent of the U.S. assistance funds.

Now, that does not need to run into conflict with any other groups. If other organizations want to fund other things, that is entirely up to them. Now, it is conceivable that over time, like any organization, the CADO might evolve, but I do not see any problem in the way we have envisioned it in this legislation.

Senator DECONCINI. Thank you, Mr. Dam.

Thank you, Mr. Chairman.

BIPARTISAN WILLINGNESS TO ACCEPT ADDITIONAL AUDITORS

Senator KASTEN. Thank you, Senator.

Mr. Morris, if you would just stay there for one moment, I think that we have seen this morning a tone at least in this hearing of a bipartisan willingness to work with the administration on the basic recommendations of the Kissinger Commission.

I think that one problem that I want to mention is the audit question. The subcommittee feels that there has been a little bit of wiggling in AID and other places in terms of people publicly saying that they are interested in working with the audits, and then backing away from that somewhat. As late as last Saturday or, excuse me, Friday, in preparation for this hearing, we inquired of the IG staff regarding the plans for increased staff. They told us there are none.

Now, maybe something has happened between Friday and today, or maybe you are talking about changing personnel from one area of the IG staff to another. I do not know. But I want to just say, Mr. Secretary, that if we find that there are audit problems as we increase the funds, if we find that we do not have an ability through either outside sources or the IG staff or both to follow these funds through, I think that the whole Kissinger Commission effort and the bipartisan consensus which I see developing will be at peril.

So, I am hopeful that the administration understands how important this audit function is. Now, if I heard you properly, you said you now have 11 auditors. You are going to 17. When?

Mr. MORRIS. As soon as he can recruit them. There has always been a terrible lapse rate in that particular area, and in fact we authorized him in March to recruit seven more auditors than his ceiling allowed in order to compensate for any attrition in the recruitment and screening process, which still takes 7 months, I am afraid, due to our rigorous security.

Senator KASTEN. You are not then asking that he transfer people from other sections? You are saying, hire six more people as quickly as you can? Is that right?

Mr. MORRIS. Absolutely, and I have a memorandum in my possession from his Executive Management Service officer making that request, so I am mystified as to why his staff on Friday was unaware of that.

In addition, there is a request globally that we are studying that goes beyond the Central American region. Furthermore, there is, as the Inspector General well knows, I have had several conversations with OMB seeking their approval for us to go to other agencies on a reimbursible detailed basis and obtain Spanish-speaking auditors.

OMB has given me assurance that they will support that request if we need it on a short-term basis to put people in the field more rapidly than the recruitment process and traditional clearance procedures might allow. DOD, for example, has similar procedures, so we might secure them there.

There is a debate now whether we need to do that. We are going to examine what the recruitment results bring from this current pipeline, and then we will see.

Senator KASTEN. Well, be cautious in using words like "being mystified," because Peter McPherson in a statement to this subcommittee, which Senator DeConcini referred to, and it is in the hearing record, indicated that there were no plans for such an increase after I asked him that, so there is a question here, and I just want to say that we are concerned about it.

I am pleased with your answers this morning, and maybe now we are clear where we are going, and this subcommittee has suggested to Mr. McPherson exactly what you just said, going out and trying to find some people within the Government. It would seem to me that just at this moment we ought not to spare any effort at getting a proper, sound audit staff as we go forward. These are huge increases in money with tremendous public and private scrutiny, and we ought to do it right.

Mr. MORRIS. I agree, and that is why we have laid forth the plans we have. As to the mystery, perhaps there was a lapse of time between when you asked that question and your call on Friday. I am mystified as to the IG's staff being unaware of the decision on Friday, not at the time the hearing was held.

[CLERK'S NOTE: Additional information on the decision to increase the Inspector General's Latin American division follows:]

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

DEPUTY ADMINISTRATOR

June 6, 1984

Dear Senator Kasten:

Pursuant to our conversation the other day following my testimony before your Subcommittee, I would like to clarify the sequence of events as I now more fully understand them regarding the decision taken on increasing the Inspector General's Latin American division. As I said before the Committee, the decision *has* been taken to accede to the Inspector General's request to increase his division for Latin America from 11 to 17 full time auditors. This increase will *not* come out of his existing ceiling but will be added to the total. I was under the impression, based on a memorandum received by our Assistant Administrator for Management, Mr. Rollis, that the decision was in fact taken the previous week. When informed of the request and our ability to meet it during my briefings the day prior to your hearing, I merely thought I was being *informed* again of a decision already taken and one for which I had earlier expressed approval. I now learn, however, that it was my approval expressed during the briefings that in fact was the decision moment and that the AA for Management inadvertently did not transmit that decision to the Inspector General prior to the hearing. I assure you, however, the decision is final and fully in accord with the statements I have been making all along.

I hope this letter will clarify the matter. The important point is I have consistently asked the Inspector General to set forth his needs and I have consistently supported those needs when they in fact were substantiated and we had the means to accommodate them. I fully share your concern that we always maintain an adequate audit staff, not only in Latin America, but throughout the world. It is only in this way that we can not only learn lessons from our mistakes, but also assure you, other members of Congress and the American taxpaying public that we are doing everything possible to oversight our activities. Thank you as always for your support.

Sincerely,

Jay F. Morris

The Honorable Robert Kasten
United States Senate
Washington, D.C. 20510

DISRUPTION IN VOTING

Senator KASTEN. Mr. Secretary, during the Salvadoran election, this last election, there was a significant reduction, if I understand it, in the number of places where the guerrillas were able to disrupt the voting. The numbers that we have got, and maybe you have different ones, and that is why I am asking, are that in previous elections they were able to disrupt about 58 voting places, or shut down about 58 voting places. In the elections which just occurred that number was down to 34.

Now, is that correct, that we had elections, full and complete process, that something like only 34 were shut down?

Mr. DAM. That sounds about right.

Senator KASTEN. How does that then square with the idea that the guerrillas are building up? Is the army stronger today than they were during the previous election, or are the guerrillas weaker today than they were during the previous election, or did they just not try as hard in this particular tactic this time?

Mr. DAM. I think the guerrillas have not been, at least recently, pursuing the path of trying to occupy territory as such, but have moved around and tried to attack targets, particularly economic targets, and they did try to disrupt the election, but their primary approach was not just to try to occupy territory.

INTERNATIONAL AID PROGRAMS TO CENTRAL AMERICA

Senator KASTEN. The Kissinger Commission report estimated that Central America needs in total $24 billion in outside loans and aid through 1990 aimed at a 3-percent growth rate per capita.

About two-thirds of that they suggested should be provided by outside sources, private banks, international development banks, other countries, and then the remainder would be coming from the United States of America. Canada, Germany, I believe Japan and others have assistance programs to Central America and to the region.

I wonder, could you explain to us what efforts have been made, if any, to work with these countries to encourage these donors to increase their aid programs in the region, and to what extent is the administration now coordinating our Central American program with other bilateral and multilateral donors, and with the international development banks?

Mr. DAM. Well, first of all, diplomatically, we have approached a number of governments, interesting them in not only supporting El Salvador, but also the region, and there is a great deal of coordination that goes on with regard to other areas as well as Central America, with the international organizations and regional banks. We could describe that process to you if you would like.

Perhaps Mr. Morris could do that, or we could provide it to you in writing, but we are quite conscious of the need to have an integrated program for economic development in any region of the world, and certainly in Central America.

Senator KASTEN. I wonder if, in the interest of time, maybe you could provide the subcommittee with more detailed information on exactly where we are with the international development banks and then specific information on a country by country basis.

[The information follows:]

ASSISTANCE BY OTHER DONORS TO CENTRAL AMERICA

The United States has actively promoted increased assistance by other donors to Central America. This has been done both bilaterally through contacts with other governments, and chaired by the Inter-American Development Bank (IDB). The IDB's special efforts on behalf of Central America led to a September, 1983 meeting in Brussels, Belgium between the countries of Central America and representatives of potential donor governments, commercial banks and international institutions to discuss an economic action plan for the region. The meeting was followed by bilateral discussions between the countries and commerical banks. A second meeting of the group was held prior to the IDB annual meeting in March 1984 in Punta del Este, Uruguay. Following that meeting, the Director of the Bureau of Inter-American Affairs' Office of Regional Economic Policy visited at EC capitals to encourage greater support by those governments for development assistance to Central America.

Assistant Secretary Motley met with West German Minister of Economic Cooperation Warnke later that month. In April, Minister Warnke met with me, with Undersecretary Eagleburger, with AID Director McPherson and again with Assistant Secretary Motley. We are engaged in an ongoing series of tripartite consultations with the British and the Canadians in which we encourage them to take a more active part in assistance to Central America. Even before President Reagan announced the Caribbean Basin Initiative in February 1982, the U.S. Government entered into consultations with other donor countries for the purpose of encouraging them to increase their assistance to the Central American and Caribbean countries. Such consultations have continued, primarily on a bilateral basis. We have been gratified, for example that Venezuela and Mexico have continued their assistance to the region under the San Jose oil facility.

In April, the Commission of the European Community sent to the EC Council a proposed set of guidelines for strengthening relations between the Community and Latin America. The guidelines call for stepping up industrial, scientific, and energy cooperation with 20 countries of Central and South America, which are not members of the EC's Lome convention. The Commission also proposes opening up the resources of the European Investment Bank (EIB) to Latin America and augmenting training of Latin American nationals. The Commission plans to flesh out its proposals and to negotiate with the EIB after Council approval, which should come before the end of June.

The following table reflects funding by the MDBs to countries of Central America in 1983. No comparable figures are available for bilateral donors, although such aid is significant. We are encouraged by recent decisions by the governments of West Germany and Canada to provide economic assistance to El Salvador, and by recent renewed European interest in Central American assistance.

MDB Funding To Central America, 1983
($ millions)

	IDB[1]	IBRD/IDA[2]
Costa Rica	35.8	25.2
El Salvador	13.5	--
Guatemala	167.9	18.5
Honduras	129.2	45.0
Nicaragua	30.7	--
Panama	112.0	85.0
TOTAL Central America	489.1	173.7

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1 - Totals are for CY 1983
2 - Totals are for July 1, 1982 - June 30, 1983

Source: 1983 Annual Reports for IDB and IBRD/IDA

EFFECTS OF INTERNATIONAL RECESSION

Mr. DAM. Let me say that one of the facts has been with the international recession, a large portion—and actually violence in the region, too, has had its effect. A large portion of the assistance thus far has had to go for balance of payments assistance. We have in that area a different kind of problem. There is more coordination with the International Monetary Fund, and we have put a great deal of emphasis on conditioning our assistance with compliance with the conditionality of the International Monetary Fund.

So both on the development side and on the balance of payments side, we think this is important. A great deal of the current focus has been on the balance of payments side, and that is one of the things that we hope through this expanded program we will be able to do, that is to put more emphasis on development and less on just dealing with the problems of the moment.

Senator KASTEN. I think that from the subcommittee's point of view, as we move forward now with this legislation, we are going to be concerned that the two-thirds that the other organizations should contribute move along at roughly the same rate as the one-third which the Congress of the United States is going to be asked to deal with, and that the interrelationships, I think, are going to be important as we come certainly to the fall and early next year.

Senator Inouye?

DISTRIBUTION OF AID TO BUSINESSES

Senator INOUYE. Mr. Secretary, every report on Central America considers economic development or the strengthening of the economic infrastructure to be very important. A recent survey of El Salvador indicates that there are approximately 159,000 business organizations in El Salvador, partnerships, corporations, sole proprietorships, and of that number 97 percent are considered small businesses.

They have annual earnings of about 5,000 U.S. dollars. About four-tenths of 1 percent would be considered very powerful, wealthy, or large businesses. Now, we have many millions of dollars requested for economic development, economic support and such. Are we setting up programs that are sensitive to these statistics?

Put another way, will the cash transfer type program benefit just the big business, the four-tenths of 1 percent, or would some of the benefit go to the 97 percent?

Mr. DAM. I am going to ask Mr. Morris to address that in more detail, but let me say that I think characterizing enterprises in El Salvador as big business gives a somewhat misleading impression. In fact, we need, in a country like El Salvador, in any of these countries, we need enterprises that can provide employment to substantial numbers of people.

There is a feeling in El Salvador, because of the high density population, that there is a great pressure for jobs, and one of the things we have to do is to try to create conditions under which enterprise is able to hire a considerable number of people. And so I think it would be a mistake to think of big business in the sense in which we might use that term in the United States. I do not think that that is really true.

In some countries, there are some substantial agribusiness organizations, but in general this is not an area of the world characterized by large enterprises. Insofar as your interest is concerned about small business, I would like to ask Mr. Morris if he could address that particular question.

Mr. MORRIS. Well, Senator, as the Secretary mentioned, the principal purpose of the balance of payments support is to allow for the continuation of essential imports to keep the economy and the private sector going. Not only large businesses import. In fact, I would suggest that some of the smaller businesses are more at risk should availability of foreign exchange become too scarce because they do not have the resources to carry them through any dry spell.

So, I think they benefit directly in that sense. Furthermore, they are suppliers or interrelated economically often in the market with some of the larger firms. And third, I would point out, of the $73 million DA and the supplemental we are requesting, roughly $30 million is being earmarked for helping the subsector, the manufacturing subsector in moving toward a more export orientation and also into nontraditional exports.

So, we think that a considerable amount of the benefit accrues directly to those firms.

MONEY OUTFLOW

Senator INOUYE. Earlier, many of us were concerned about money outflow, money going to places like Florida and such. What is the situation now?

Mr. MORRIS. Well, I am happy to report that for the first time there was a net capital inflow instead of an outflow for the region. If you are speaking of El Salvador in particular, of course, there are no figures on illegal capital flight.

Senator LEAHY. On what kind of capital flight?

Mr. MORRIS. Illegal. By the very definition, they do not keep records on that, but there is a rough parallel in the balance of payments accounts on capital outflow, and that showed in 1980 over $450 million in net capital outflows from El Salvador, and in 1983 I believe the net figure is around $8 million.

So we consider if that trend is paralleled in the illegal transactions, and it should be, that capital flight is a far less severe problem in El Salvador in particular than it was 3 or 4 years ago, and that in the region, the entire picture has turned around. I think most of the capital that was going to flee has fled.

And for those reasons, the Secretary was reminding me, our concern was to the future. We do not think that there is much risk that those sorts of diversions would occur. Another reason we do not, of course, is the question of Senator DeConcini that I was addressing, namely, that the controls in the case of El Salvador are steadily improving.

RELATIONSHIP OF MR. DUARTE WITH THE BUSINESS COMMUNITY AND MILITARY

Senator INOUYE. Just one more question, Mr. Chairman. During the recent election in El Salvador, the consensus was that President-Elect Duarte lacked the support of the business community, and that the military was quite uneasy with Mr. Duarte. Yesterday during our meetings with the President-elect he assured us that there is a firm foundation of good relationship being developed with the business community, and that he is satisfied that the military is on his side.

Are you also satisfied with those observations?

Mr. DAM. Well, with regard to the military, first of all, he has indicated that publicly, and I am just repeating, referring to his public remarks, and his private remarks correspond, of course, that there will be some changes, but the military was very careful to remain, to be very apolitical, if I may use that term, during the election period. I have every reason to believe that they will be faithful to their duty and support the government, and I think he is correct on that.

With regard to the business community, of course, there has been a pattern in which there have been some people in the business community who have been very concerned about the possibility of his election and the policies he might follow. He is very aware of that. I recall that a few months ago I discussed that question with him. He is acutely conscious of it.

I think he understands that he has to have the support of a broad cross-section of the community, and—well, politics is politics, and it remains to be seen exactly how that relationship will work out, but at least he is working hard at maintaining a very broad base of support, and that is his intention.

Senator INOUYE. Thank you.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you.

Senator Leahy?

ILLEGAL CAPITAL FLOW

Senator LEAHY. Thank you, Mr. Chairman.

Mr. Morris, you said you do not keep records on illegal capital flow. Why not?

Mr. MORRIS. Well, because it is invisible in many cases. There are not traces of it. The only place we have been able to catch it is in the official transactions that go through the Central Bank regarding the overpricing of invoices.

Senator LEAHY. Do you keep records of those?

Mr. MORRIS. Yes; we do.

Senator LEAHY. Even if they reflect illegal capital flow?

Mr. MORRIS. Yes; when it does, we take action.

Senator LEAHY. So your statement really was not accurate. There are areas where you do keep records of illegal capital flow?

Mr. MORRIS. Yes; but they are very partial. We do not think most of the flight occurs in that manner.

Senator LEAHY. Well, do you or do you not keep any records on illegal capital flow?

Mr. MORRIS. We have results of audits on our invoices which show some cases of overpricing which have been set forth and reported to the Committee on those audits.

Senator LEAHY. I wonder if the Reporter would read back my last question again.

The REPORTER. Well, do you or do you not keep any records on illegal capital flow?

Mr. MORRIS. Senator, I would not call some results of random samples of audits an accurate record of illegal capital flow. There are some figures, but by no means would they give you a picture of the general trend. I think that the balance of payments figures are a more accurate indicator of magnitude.

Senator LEAHY. So your answer is, you do not keep records on illegal capital flow?

Mr. MORRIS. That is my answer.

Senator LEAHY. Do you feel there is any illegal capital flow reflected from a diversion of American dollars, U.S. foreign aid dollars now to El Salvador?

Mr. MORRIS. Do you mean through the Central Bank foreign exchange mechansim?

Senator LEAHY. In any form whatsoever.

Mr. MORRIS. I think it is obvious there has been some.

Senator LEAHY. Should we be trying to find out where that money is?

Mr. MORRIS. Well, in the cases we have identified, the firms have been pursued, but there are very few cases, which is why I said in response to an earlier question on the severity of the problem I think it is minor in scope and minimal in magnitude.

Senator LEAHY. Do you mean a diversion of American tax dollars down there is minor in scope and minimum in magnitude?

Mr. MORRIS. That is exactly what I mean, compared to the amount going in. That does not mean we take it lightly, Senator. That is the reason we are strengthening the audit function and pursuing the firms that we find have in fact kited prices.

Senator LEAHY. How many indictments?

Mr. MORRIS. Three.

Senator LEAHY. How many investigations?

Mr. MORRIS. Three.

Senator LEAHY. Would you say that small a number reflects accurately the amount of diversion of American tax dollars in El Salvador?

Mr. MORRIS. I do not think that is a comprehensive review of every transaction. No, Senator.

Senator LEAHY. How many firms do you think might be involved?

Mr. MORRIS. I would not hazard a guess.

Senator LEAHY. Do you think it might be more than three?

Mr. MORRIS. It might.

Senator LAXALT. Might it be more than 50?

Mr. MORRIS. I have no idea.

Senator LEAHY. How much money do you think is diverted a year of American aid in El Salvador?

Mr. MORRIS. I do not have a figure, Senator.

Senator LEAHY. Is there an attempt being made to get a figure?

Mr. MORRIS. An attempt is always made to audit our disbursements.

Senator LEAHY. Is not a serious attempt being made?

Mr. MORRIS. We would like to think all of our reviews are serious, Senator.

Senator LEAHY. Is there anybody that you are aware of in the American Government who has been able to make an estimate of how much money, American money is being diverted out of El Salvador?

Mr. MORRIS. Senator, the only records we have are the cases that come from the audits we perform.

Senator LEAHY. And those are the only areas where you have any indication of diversion?

Mr. MORRIS. Yes, sir, they do. That is why I said earlier that the press reports that indicate there is a rampant problem are grossly exaggerated.

Senator LEAHY. So the press is grossly exaggerating this case?

Mr. MORRIS. Yes, sir, in that case they are.

PRESS EXAGGERATION: FOOD DIVERSION

Senator LEAHY. Any other cases that you are aware of down there where they have grossly exaggerated?

Mr. MORRIS. Food diversion.

Senator LEAHY. There is not food being diverted?

Mr. MORRIS. I did not say that. I just said it is not massive.

Senator LEAHY. Well, how much is it?

Mr. MORRIS. We found three bags of wheat after doing an exhaustive audit from the port all the way through the distribution system after there was a story that some 30 or 40 bags were being sold in one market. We have seven full-time Salvadoran auditors keeping track of that particular program, and we think in that case the press report which flowed from one reporter and picked up by other journalists was in fact exaggerated.

Senator LEAHY. So these gross exaggerations—Would it be a gross exaggeration to say that there is anything more than the three bags that you found diverted?

Mr. MORRIS. It would not surprise me if there was some more, Senator, but it would surprise me if it comprised much more.

Senator LEAHY. What would you define as some more or much more?

Mr. MORRIS. 10, 20 bags, perhaps.

Senator LEAHY. So if there were records of more than 10 or 20 bags of food being diverted down there—Over what period of time are we talking about, so we can just try to say? If this is within a year, more than 10 or 20 bags of food being diverted in a year, would you say that was a gross exaggeration on the part of the press?

Mr. MORRIS. It would depend upon how much more, Senator. Are we talking thousands or 50?

Senator LEAHY. I am just asking you. You are the one giving the definitions. I just want to be sure I understand your testimony in that regard.

Mr. MORRIS. Senator, if they claim thousands of tons of food or thousands of bags of wheat were being diverted, I would call that a gross exaggeration.

Senator LEAHY. What if they said hundreds of bags?

Mr. MORRIS. I would call that an exaggeration.

Senator LEAHY. What if they said 50 bags?

Mr. MORRIS. But the most important——

Senator LEAHY. What if they said 50 bags?

Mr. MORRIS. I would say that is a reasonable projection, perhaps.

Senator LEAHY. What about 100 bags?

Mr. MORRIS. Senator, before I answer that, I would like to say something, if I may, sir. My comments are based on evidence. All of these other numbers you are quoting and that others allude to in some of these press reports are not based on any evidence.

Senator LEAHY. Now, Mr. Morris, let us be very clear. I have not quoted any numbers at all. I am asking you for the numbers. I am not testifying here. You are, sir. I have not cited any numbers. I am asking you if there is diversion. I am asking you if you have audits. I am asking you if there have been indictments. I am asking you what you consider gross exaggerations.

Now, you have discussed press numbers and you said they have had gross exaggerations. Your exact words will be part of the transcript of this record. I am not citing any numbers. I have never cited any numbers. I am asking you.

Mr. MORRIS. What is your next number, sir?

Senator LEAHY. I have not cited a number. You may feel this is some kind of a game. We are up here being asked by the administration to send down eventually hundreds of millions of dollars, perhaps billions of dollars into this country. You seem to think it is some kind of a game. Believe me, it is not. Each one of us have to respond to our constituency on this, and their questions.

I happen to come from a State that is predominantly Republican, about 80 percent Republican, probably the most Republican State in the country, one that strongly supports President Reagan, one that is probably as vocal as any State in the country in raising questions about the policy in Central America.

I think I have a duty to them, as well as to the Senate, in asking these questions. Now, you may think it is a joke. You may think it is funny. None of us up here do, neither the Chairman, myself, nobody, Republican or Democrat on this committee thinks it is funny. We want to make sure that the tax dollars that are sent down there are actually spent. We want to make sure that nobody on the right or the left is taking the United States for a sucker.

And so I think if we ask questions about what kind of controls there are on our aid once it goes down there, I think it is a realistic question. Do you take my point?

Mr. MORRIS. I do, Senator, and I was not smiling nor joking. Fifty is an exaggeration.

PROJECTED MILITARY SITUATION IN EL SALVADOR

Senator LEAHY. Secretary Dam, I wonder if we might go back to an issue I was covering before. How do you see the military situation in El Salvador in a year? And I ask you that question because it relates to projections of the recommendations of the Kissinger report.

Mr. DAM. I think it is based entirely on the level of funding and support that the United States of America, meaning both branches, are willing to devote to the problem.

Senator LEAHY. You are talking about both military and economic?

Mr. DAM. I think both, yes. I think they are both equally important, and I think they go together. That is to say, one without the other will not do the job. The reason I say that is, and it is in keeping with the words, the actual words of the Kissinger Commission recommendation, and now I am talking about the military side, saying that if there is a case for doing nothing, and there is a case for doing a lot more, but there is no case for going at the level that we have been going, because it—and now I am interpreting what they said—it is essentially a question of doing too little.

Senator Johnston explained the problem of the use of trucks to reduce mobility, and certainly helicopters are for mobility, too. They are important. But the Army cannot deal with the guerrilla threat without being able to move around the country. We criticized them a lot for having been a barracks army, but in fact they have not had the physical mobility necessary to deal with the kind of threat that they find.

Senator LEAHY. I have one further question. My time has expired.

Senator KASTEN. Please continue.

DISAPPEARANCE OF GUERRILLA MOVEMENTS

Senator LEAHY. Thank you, Mr. Chairman.

I was just going to ask what you are projecting for the next year, and I think you will find general agreement in the Congress on both sides of the aisle. You either do an adequate amount or do not do anything. And trying for some halfway measure is sort of a no-win situation for everybody involved. But how much? It is a two-part question, really. How much does it take to win?

In looking over the projections for the next year in military and economic aid, in your estimate, if it turns out that that is not enough, do you see any possibility of the introduction of American troops into El Salvador beyond the advisors?

Mr. DAM. First of all, I think it is important to understand the whole point of this program. The proposals that are being made are to avoid the use of American troops. We start with that. I think that the proposals that have been made have been made against the background of the study of the problem and what can be used and what is reasonable, and they are detailed in the material that I believe the committee has been provided.

I think that history shows that guerrilla movements die out slowly. I am not suggesting it is going to disappear in a year. I think, however, that if there can be a decisive change in the situation that will then lead the guerrillas to realize that their best chance is to come into the political process, to participate, say, in the 1985 elections which will be for local government and the like. It will also, I think, have an impact on the way in which Nicaragua views its future, and whether it is not highly desirable for it to enter into the Contadora process, for example, with considerably more vigor.

So I think that the question is not whether the guerrilla movement is going to disappear in a year. It is a question of whether we are going to turn a corner so that both the guerrillas and Nicaragua see their future in negotiations as opposed to the present situation in which they are essentially giving a cold shoulder to the negotiations.

Senator LEAHY. Thank you.

Senator KASTEN. Senator, are you going to have more questions?

Senator LEAHY. I have actually one that is sort of related to this.

Senator KASTEN. Why do you not go ahead? I am chairing on the floor at noon, so I would like to conclude the hearing by that time, so go ahead with your question.

AMOUNT OF AID

Senator LEAHY. I understand, and I understand the answer of Secretary Dam, but if we define winning, and I agree with you that you will not suddenly have a day where the guerrillas say, that is it, that is the end of it. Assuming you have a guerrilla group that is at least indigenously based in support, but assuming that winning is getting the guerrillas and the Nicaraguans and others to respect the Contadora process, perhaps to take advantage of some form of what President Duarte says, and you referred to it in your statement, giving them space where they can enter into the political process and so on, how much, how much do we need to get to that point? What are we projecting? Are we projecting 100 million dollars' worth of military aid, 300 million dollars' worth of economic aid in the next year? Fifty million? Two hundred million?

And I realize this is not something that we can say it is going to be $28,314,512 by any means, but what is your best estimate to get us to that point? What can we appropriate and then know that out there is a milestone that we can look at and say, was this appropriation successful, not that, gee, if you had given us enough we would now be successful, but how much, so that we will in your estimate be successful?

Mr. DAM. First of all, I would like to point out that we have treated the economic aid area differently from the military aid area. In the economic area, we have projected 5 years in the future. In military, all we have talked about is next year plus a supplemental for this year, and the supplemental for this year of $178 million is to a large extent catchup in the sense that there are a lot of identified things that we need to do, and we should have done yesterday, and that is what that is about.

With regard to 1985, it is $132 million, so that you see already a certain assumption——

Senator LEAHY. This is military?

Mr. DAM. Yes, military aid. Now, there is no projection for 1986, and the reason for that is that we have to see how things go. I would hope that we would be able to follow that line of projection provided we do what is necessary now.

Senator KASTEN. Thank you, Senator.

Senator LEAHY. Thank you, Mr. Chairman. I appreciate the Chair's courtesy in letting me get those questions in.

SUBMITTED QUESTIONS

Senator KASTEN. Mr. Secretary, there may be some questions submitted for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HATFIELD

MILITARY ASSISTANCE TO COSTA RICA

Senator Hatfield: On May 4, 1984, there was a conflict between Costa Rica and Nicaragua on the border between those two nations. According to articles in the Washington Post, the Government of Costa Rica has subsequently requested $7.8 million in military assistance to be delivered right away. Are these reports correct? If so, has this assistance been provided and from what source? Is the assistance to be provided to Costa Rica drawn from or in expectation of the level of military assistance requested, but not yet provided, in the FY84 supplemental appropriations request?

Mr. Dam: The GOCR approached us with a formal request for additional security assistance, valued at about $7.8 million, in the wake of the latest Nicaraguan attacks on Costa Rican territory April 29 and May 3. The assistance has not yet been delivered. After discussions with the GOCR, is was agreed that under current conditions the assistance could adequately be provided under the pending FY84 MAP Supplemental, which already contemplates the kinds of material requested.

COSTA RICA - NICARAGUA BORDER

Senator Hatfield: It is my understanding that Nicaragua and Costa Rica recently signed an agreement in Panama to allow a commission to investigate the charges of both parties. This agreement was apparently developed through the efforts of the Contadora group as a means to seek a peaceful solution to the border conflict. Is this effort seen by the administration as a positive sign that resolution of contentious regional issues can be pursued peacefully through the involvement of the Contadora group?

Mr. Dam: We welcome any movement away from hostilities and toward peaceful resolution. The declaration mentioned, however, can only only be meaningful if it is accompanied by cessation of Nicaraguan harassment and border attacks. The fact that the declaration was signed under Contadora auspices shows the kind of contribution that Contadora -- which we strongly support -- can make. But neither we nor our friends in the region regard such bilateral arrangements as a substitute for a comprehensive regional, verifiable and enforceable Contadora agreement.

Senator Hatfield: How do you reconcile the Costa Rican request for military assistance, the apparent effort by the U.S. to enlist Costa Rica in the campaign against Nicaragua and the efforts by both nations to seek peaceful solutions?

Mr. Dam: The unfortunate fact is that Costa Rica borders on an aggressive and heavily militarized Nicaragua. The Costa Ricans themselves have expressed grave fears to us about Nicaragua's repeated attacks along their border. As a result, they have looked to us for security assistance including the latest request to be provided from the FY84 Supplemental request. The U.S. is not pushing Costa Rica into a confrontation with Nicaragua. We will respond, however, to requests from Costa Rica to help preserve its sovereignty.

COSTA RICAN EXTERNAL DEFENSE

Senator Hatfield: Mr. Dam, is there any policy at the Department of State to draw Costa Rica further into the U.S. campaign against Nicaragua? Will the U.S. continue to respect the 36-year-old tradition on Costa Rica of not having an army?

Mr. Dam: As I said, we are not attempting to draw Costa Rica into hostilities, nor are we trying to push onto them any arms or equipment they do not need or want. However, Costa Rica's small national security force -- composed of 4,000 Civil and 3,000 Rural Guards -- is woefully unprepared to meet its constitutionally mandated responsibilities for external defense. Border incidents with Nicaragua, which is engaged in an arms build-up, as well as reports of arms and drug trafficking through Costa Rica and its territorial seas and a number of internal terrorist incidents, underscore the requirement for assistance in improving the capability and mobility of the Costa Rican security forces. Thus, the Costa Ricans have expressed to us a need for security assistance to deal with these threats. President Monge's efforts to upgrade the public security forces have the strong backing of the Costa Rican people.

Senator Hatfield: There are also some indications that these border clashes are partly brought about by the CIA supported Contras operation out of Costa Rica. Is the U.S. putting Costa Rica in this position of conflict with Nicaragua due to our support for ARDE? Is our current Central American policy so overtaking our perception of the region that we ignore the soveriegn policies of nations to remain neutral in this matter?

Mr. Dam: We fully support Costa Rica's sovereignty and have no intention of undermining it. I cannot address questions about alleged U.S. covert activities, but can emphasize that we understand and respect Costa Rica's desire to remain militarily neutral in the Central American conflict.

EMERGENCY MILITARY ASSISTANCE FOR EL SALVADOR

Senator Hatfield: Earlier this year the administration submitted an "emergency" appropriations request for $93 million in military assistance. At that time a fact sheet was prepared by the Department of State and testimony was given by Lieutenant General Philip C. Gast before the Senate Foreign Relations Committee on March 20, 1984, each stating that there was a critical need for item such as medevac helicopters, trucks, communications equipment, spare parts, etc. Both the fact sheet and Lieutenant General Gast's testimony also stated that stocks of ammunition would be depleted by mid-May and that immediate supplies were needed to "avoid the devastating psychological perception of U.S. abandonment that would be caused by the very real possibility of a break in the supply line". As you know, the emergency supplemental did not receive immediate Congressional approval, so the President chose to exercise his section 506 draw-down authority. According to reports I have received, those monies were used for medevac helicopters and for training, but little or no monies for ammunition. It is now mid-May and apparently ammunition supplies aren't depleted nor has there been a devastating psychological impact in El Salvador. Mr. Deputy Secretary, I hope you can provide the Subcommittee a proper explanation for this. Otherwise, I get the very clear impression that we and the other members of Congress have been misled regarding the apparent emergency which existed two months ago.

Mr. Dam: The fact sheet provided by the State Department and the testimony given by Lt. General Gast were accurate. The equipment and training recently sold to El Salvador under the President's exercise of the authority provided in section 21(d) of the AECA were identical to those categories previously identified as critically necessary. In regard to ammunition, Army and Air Force ammunition totaling $7,551,931 was sold to El Salvador under section 21(d) and arrived in country on May 11. The fact that the Salvadorans knew in mid-April that the President had decided to use section 21(d) authority, and that a shipment would arrive in mid-May diminished the level of uncertainty over the short-term supply situation and thus was instrumental in avoiding the debilitating psychological effects that were stated in the fact sheet and testimony. Had the President not used section 21(d) the situation in El Salvador would have become critical. The attached fact sheet lists all the sales that were made to El Salvador under section 21(d). It should be noted that the 21(d) sales in some of these categories, in particular the ammunition sales, will only extend Salvadoran Army supplies to the mid-summer time period.

INFORMATION PAPER

SUBJECT: FMS Cases Implemented Under the Provisions of
Section 21(d), AECA (U)

CATEGORY

MEDICAL:

- 4 UH-1 MEDEVAC Helicopters: $5,924,321

  -- (U) Delivery: air ships o/a 30 Apr via Corpus Christi, TX; arrive o/a 1 May.

- 10 1/4 Ton Field Ambulances: $308,094

  -- (U) Delivery: surface ship o/a 3 May via Concord, CA; arrive o/a 11 May.

Medical Sub Total 6,232,415

AMMUNITION/ARMAMENTS:

-30K 40mm Hand Grenades: $465,498

-- (U) Delivery: surface ship o/a 3 May via Concord, CA; arrive o/a 11 May.

-4M 5.56mm Ammunition: $1,164,384

-- (U) Delivery: surface ship o/a 3 May via Concord, CA; arrive o/a 11 May.

- Small Arms Ammunition: $3,106,036

-- (U) Delivery: surface ship o/a 3 May via Concord, CA; arrive o/a 11 May.

-59 60mm and 20 81mm Mortars, 7 90mm Recoiless Rifles, and 200 M79 Grenade Launchers: $605,785

-- (U) Delivery: surface ship o/a 3 May via Concord, CA; arrive o/a 11 May.

- (U) RMTC Ammunition (Various Types): $815,075

-- Delivery: air ship by MAC Channel o/a 25 April.

- Air Force Ordnance: $2,000,938

-- (U) Delivery: surface ship o/a 3 may via Concord, CA; arrive o/a 11 May.

Ammunition/Armaments Sub total: 8,157,716

TRAINING:

- Training and U.S. Army Trainers: $3,765,680

-- (U) Teams: Security Assessment (2 NCOs) Recon Unit (2 NCOs); General Staff (7 teams - 12 OFF & NCO); 3 Battalion (Bn) teams (5 to 12 man SF A Team).

-- (U) NOTE: Orders required to replace these teams during the May to July time frame; individual replacements must be identified now for pre-PCS training movement and leave; majority of the trainers will be rotated during this time frame.

- RMTC Trainers: $3,560,000

-- (U) Funds most training until September.

- Training at PACAMS: $934,789

-- (U) Courses: NCO development (100 NCOs); training management (5 OFF); reconnaissance (3 OFF & 105 EM); Command Staff Officer Refresher (30 OFF).

-- (U) Training was deferred from 12 and 13 April to 17, 18, and 20 April for these courses pending availability of funding.

- CONUS Helicopter Pilot Training: $1,152,426

-- (U) 20 Air Cadets in special Spanish language course at Fort Rucker, AL (first course ends 30 April, the second course starts 7 May).

-- (U) Funding required to extend the TDY of 13 Spanish speaking U.S. Army instructor pilots to conduct second course, and to train students.

- Training Transportation: $200,000

--(U) USAF air movement of ESAF personnel to/from training sites in Central America.

- Training and USAF Trainers: $511,999

-- (U) Courses: NCP/EM technical training at IAAFA.

-- (U) Continues upgrade of ESAF logistics and maintenance capabilities.

- Navy/USMC Trainers: $390,912

-- (U) Naval MTT provides training to El Salvadoran Navy.

-- (U) USMC BCC OPAT provides Brigade OPAT for one year.

Training Sub Total: 10, 515,806

- Spares and supplies: 7,057,226

-- (U) Provides sustainment to ESAF in all categories of supply to include automotive air force, clothing, individual equipment, medical, weapons and communications until August.

TOTAL 21(d): $31,963,163

QUESTIONS SUBMITTED BY SENATOR DECONCINI

ECONOMIC SUPPORT FUNDS FOR BALANCE OF PAYMENTS SUPPORT

Senator DeConcini: I understand that the primary purpose of the Economic Support Funds for El Salvador is to provide balance of payments support for the government. Yet obviously this money could and should be put to good use from a development perspective. How is this assistance channeled toward useful economic and social programs?

Mr. Dam: The bulk of our Economic Support Funds (ESF) for El Salvador is provided as balance of payment support. By financing essential imports for the productive sectors, we have played a vital role in helping to arrest the severe economic decline (over 25% between 1980 and 1982) and accompanying unemployment (40-50%). This fast-disbursing ESF program has helped El Salvador slow the economic decline in 1982, finally halt the decline in 1983, and reverse the trends in factory and business closings and unemployment. Given the nature and severity of the problems posed by the scarcity of foreign exchange in El Slavador, our balance of payments assistance has provided and is providing critically important benefits to the economic and social well-being of the country. Finally, since economic stabilization is a prerequisite for meaningful development, our ESF provided as balance of payments assistance has been put to good use from a development perspective.

MEMORANDUM OF UNDERSTANDING

Senator DeConcini: I understand that the Memorandum of Understanding between the United States and El Salvador sets forth the areas toward which El Salvador is to spend a certain percentage of local currency generated as a result of our ESF program. What are these spending guidelines? How closely has the government of El Salvador followed these guidelines? How is their compliance with the memorandum monitored?

Mr. Dam: The memorandum of understanding (MOU) between the United States Government (USG) and the Government of El Salvador (GOES) sets forth the following allocations of ESF and PL 480 generated local currencies:

Local Currency Expenditures under USG/GOES MOU of 1983 Targets

(Dollars Millions)

	GOES	PL 480	Total
Agrarian Reform	34.04	28.8	62.84
Employment Generation	82.40	26.4	108.80
Public Services Restoration	2.96	4.0	6.96
Humanitarian Assistance	4.08	5.2	9.28
Policy Development	3.68	3.2	6.88
TOTAL	127.16	67.6	194.76

The Salvadoran Government has maintained a good record in complying with spending guidelines set forth in memorandums of understanding. Compliance is reviewed periodically by the A.I.D. Mission in El Salvador, in meetings with Salvadoran officials.

TRADE CREDIT INSURANCE PROGRAM (TCIP)

Senator DeConcini: One of the Kissinger Commission proposals which the Administration apparently supports but which does not seem to get much public attention is the Trade Credit Insurance Program. Could you tell me the purpose of this program and how it would function? Does it indeed have Administration support?

Mr. Dam: One of the factors holding back economic activity in Central America is the unavailability of trade financing to support essential imported inputs for local industry and the agricultural sector. Commercial banks have cut back their exposure in the region, due both to concern about the political situation and to fallout from debt problems in Latin America as a whole. The Export-Import Bank has provided some support but has been unable to fill the gap due to legislative constraints on its risk management policies. The Trade Credit Insurance Program will address this shortage by making additional trade financing available. Under the TCIP, EXIM will issue up to $500 million in insurance ($300 million in 1985; $200 million in 1986) for short-term revolving lines of credit to be extended by U.S. banks. AID will reimburse EXIM for any losses incurred out of an appropriated reserve ($60 million in 1985; $40 million in 1986). The program will require an agreement by each participating country or its Central Bank to reimburse the U.S. government for any payment of claims.

The Administration supports TCIP without reservation. It is one of the most important specific measures we have proposed to reactivate the economies in the region. The political aspects of the debate over U.S. policy in Central America have tended to obscure the long-term goal of restoring the self-sufficiency of these economies, to get things moving so the people will have jobs.

DISCUSSIONS WITH CONTADORA GROUP

Senator DeConcini: I met with President de la Madrid of Mexico last week and was impressed with the sincerity of his desire to see the Contadora Group's initiatives move forward. What is the Contadora Group's reaction to the Kissinger Commission Report? How has the Reagan Administration sought out the views of the Contadora Group?

Mr. Dam: We have discussed with leaders of the Central American and the Contadora Four countries both the report of the National Bipartisan Commission on Central America and the President's Central America Democracy, Peace and Development Initiative, which would implement the Commission's recommendations. Their public comments on the report have been generally positive. Colombian President Betancur cited the report as evidence of a more responsible US attitude toward Central America and quoted sections calling for cooperation rather than domination, association rather than confrontation, and a decent life for all rather than exploitation. Commenting on the report's relationship to the Contadora process, Panamanian Foreign Minister Oyden Ortega said that the report does not contradict the Contadora Group's aspirations. "Everything that might mean a contribution to the development of our countries will be welcomed by the Contadora process," he said. Some leaders, while praising the report's call for a sustained, comprehensive US policy toward Central America, have cautioned that there must be a balance among the various elements of our policy.

The President's special representative for Central American negotiations, first Ambassador Richard Stone and now Ambassador Harry Shlaudeman, has consulted with the nine Contadora states about how the US could best support their peace initiative. He has reaffirmed our intention that the momentum of the Contadora process be maintained. The activities of the special envoy have recently been supported by the visit of an interagency team of technical experts who have consulted with Central American representatives working on the difficult issues involved in translating the Document of Objectives into a comprehensive, verifiable peace treaty.

CONTADORA COMMITTEE RECOMMENDATIONS

Senator DeConcini: The Contadora Group met last April to receive the recommendations of the committees that it had created to look into the social, military, and economic problems of the region. It is my understanding that these recommendations will be combined to form various treaties for the nations of the region. Could you summarize the recommendations issued by the committees and describe the extent to which the Administration agrees with those recommendations?

Mr. Dam: We do not have the texts of the working commissions' reports and have only sketchy information about their contents.

The bulletin issued at the end of the meeting (copy attached) commended the commissions on political affairs, security, and socio-economic affairs for their reports, which had served to identify areas where more work is required to achieve a comprehensive peace proposal for Central America. The recommendations of the commissions will now be studied by the vice-ministerial Technical Commission and by the foreign ministers themselves in order to develop specific proposals for the consideration of the Central American governments. The bulletin also refers to conditions of violence, military escalation, and military buildup, calling on all states with links and interests in the area to lend their concurrence and cooperation to the regional peace effort. Our support for this effort has been and continues to be clear.

The interests of all of the Central American peoples would be best served by a comprehensive verifiable agreement which addresses all of the region's problems. A cosmetic accord or a treaty that addresses only the concerns of one of the Central American states and not the concerns of all the states would, in our view, be disastrous.

It would defeat the purpose of Contadora by treating regional issues bilaterally. Our understanding is that the majority of the Contadora participants favor a single comprehensive treaty, and we agree with that position.

We specifically endorse the 21 objectives. We believe that if they are implemented in a comprehensive, verifiable and reciprocal manner, they will form the basis for a political resolution to the Central American dilemma which would provide equitable, democratic development in the area and protect US security and other interests.

While we have reiterated our support for the Contadora initiative, we are mindful that much of its success reflects its regional nature. Although all parties recognize the strong and legitimate US interest in the Contadora process and the need for our support and involvement, the United States and the regional governments agree that direct US participation in Contadora would not be helpful.

Boletin Informativo

En la ciudad de Panama, el 30 de Abril de 1984, se reunieron los Ministros de Relaciones Exteriores de Colombia, Mexico, Panama, y Venezuela, integrantes del Grupo de Contadora, con sus colegas los Cancilleres de Costa Rica, El Salvador, Guatemala, Honduras, y Nicaragua.

La VI reunion conjunta de Cancilleres tuvo como proposito continuar y profundizar la accion diplomatica que procura evitar el agrandamiento de las tensiones y los conflictos en Centroamerica, y crear las condiciones necesarias para lograr una paz estable, generar un clima de confianza y una perspectiva de entendimiento y cooperacion entre los paises de la region.

De acuerdo con la convocatoria al respecto, los Cancilleres recibieron las conclusiones de las Comisiones de asuntos politicos, de seguridad, y socioeconomicos, previstos en las normas para el cumplimiento de los compromisos asumidos en el Documento de Objetivos del 8 de enero de 1984.

Durante los ultimos 3 meses, las comisiones celebraron cuatro periodos de sesiones de trabajo en el curso de los cuales se analizaron diversos documentos y numerosas propuestas relativas a la agenda asignada a cada uno de ellas. Su tarea, cumplida bajo la supervision del Grupo Tecnico, ha sido altamente satisfactoria.

La Comision de asuntos politicos recibio con interes y amplitud todas las propuestas sometidas a su consideracion. Dividio su trabajo en cuatro grandes campos: reconciliacion nacional; derechos humanos, procesos electorales y distension regional. Se obtuvieron acuerdos en temas relacionados con la creacion de instrumentos para el logro y aplicacion de una politica de distension basada en la confianza entre los estados, que permita disminuir efectivamente las tensiones politicas y militares. Asimismo, hubo consenso sobre la adopcion de medidas orientadas al establecimiento o al perfeccionamiento de aquellas instituciones en las cuales se sustendra la democracia representativa y pluralista en la plena observacion de los derechos humanos para promover y hacer efectivo el proceso de reconciliacion nacional. Otro resultado fue el compromiso sobre normas para garantizar la inviolabilidad de la vida, la libertad y la seguridad personal del pueblo.

Tambien se logro consenso sobre la necesidad de garantizar la estabilidad y autonomia del poder judicial para que pueda actuar al margen de presiones politicas, y recomendaciones para el libre acceso a los procesos electorales y el intercambio de experiencias e informaciones entre los organismos corespondientes de los paises centroamericanos.

La Comision de Seguridad alcanzo consenso en diferentes temas de su agenda. Todos los paises coincidieron en la necesidad de reestablecer un clima de confianza, estabilidad, y seguridad en la region y examinaron medidas practicas para alcanzar este objetivo.

En esta comision se obtuvieron importantes acuerdos de relacion con principios juridicos en materia de seguridad; medidas especificas para el fomento de la cooperacion; proscripcion de la instalacion de bases militares y cualquier otra forma de injerencia militar foraneo.

Asimismo, logro por consenso sobre principios de acuerdo para impedir el uso de territorio por parte de fuerzas irregulares en contra de paises vecinos; para impedir acciones de destablizacion; sabotaje, terrorismo, y examino alternatives concretas de mecanismos de prevencion y solucion de incidentes en zonas fronterizas.

Existio una amplia convergencia sobre el retiro de asesores extranjeros, si bien se expresaron diferencias en cuanto a las modalidades mas adecuadas para llevarlas a cabo. La comision dedico cuidadosa atencion a los problemas derivados del armamentismo y recogio criterios basicos para determinar los niveles de desarrollo militar de los paises centroamericanos, asi como la definicion de terminos para la elaboracion del inventario militar en el area.

Finalmente, se discutieron diversas propuestas sobre los medios e instrumentos mas adecuados en verificacion y control; se manifesto en este ambito el requisito de la integracion imparcial del mecanismo respectivo.

La comision de asuntos socioeconomicos, por su parte, logro acuerdos significativos en relacion con los temas que constituyeron la base de su mandato. Para el mejor desempeno de sus tareas, conto con una valiosa asesoria externa de diversos organismos internacionales y regionales. Ademas de su propio programa, celebro reuniones especiales en las que escucho las opiniones de los representantes del ACNUR, la OIT, la OPS, el SIECA, CADESCA, el BCIE, la CPAO, y el PNUD. Formulo recomendaciones precisas relacionadas con la integracion, el comercio intraregional, y la cooperacion tecnica; en materia de inversiones y financiamiento; en cuestiones laborales, y en el campo de la salud. Examino como cuestion de gran importancia la situacion de los refugiados y, al efecto, los paises presentaron diversas iniciativas que deberan estudiarse con la finalidad de procurar un tratamiento de conjunto de este problema.

Los Cancilleres subrayaron las aportaciones de las Comisiones que representan un paso sumamente positivo en el proceso de negociacion politica y diplomatica. Agradecieron la labor realizada por los delegados, expresaron su satisfaccion por el avance logrado. La tarea cumplida permite identificar las areas en que se requieren mejores esfuerzos para superar las diferencias, pero sobretodo para integrar un plantamiento global que corresponda a la complejidad y a la gravedad de los problemas de diverso orden que se presentan, hoy en dia, en Centroamerica.

Despues de un intercambio preliminario de puntos de vista, cada uno de los Cancilleres ofrecio hacer una revision minuciosa de los materiales aportados por el Grupo Tecnico y por las Comisiones de Trabajo. Para facilitar la fase subsiguiente del proceso y cumplir la funccion conciliatoria que al Grupo de Contadora corresponde, se convenio en que proceda ordenar, sistematizar, e integrar los documentos emanados de las Comisiones para presentarlos, en fecha proxima, a la consideracion de los gobiernos centroamericanos. Tambien se dispuso que el Grupo Tecnico, una vez concluida esa labor de ordenacion, sistematizacion, e integracion, examinara las recomendaciones y acuerdos, propondra formulas de consenso, completara la agenda, e elaborara los projectos de instrumentos politicos y juridicos necesarios para concretar los acuerdos alcanzados e establecer los mecanismos adecuados para su cumplimiento.

Los Cancilleres advirtieron que el progreso alcanzado contrasta, sin embargo, con el incremento de la violencia, la escalada militar, el armamentismo y la presencia militar foranea en el area cuyas manifestaciones mas recientes constituyen una grave amenaza para la paz y causan justificada alarma en la comunidad internacional. Por ellos expresaron la determinacion de sus gobiernos de intensificar los esfuerzos que impidan la generacion del conflicto y faciliten el dialogo y la negociacion. Renovaron su indeclinable compromiso con la solucion pacifica de los problemas regionales, al tiempo que exhortaron, una vez mas, a los paises con vinculos e interes en el area para que presten su decidido concurso a la distension, a la paz, y la autentica cooperacion en la region.

Por su parte, los Ministros de Relaciones Exteriores de los paises centroamericanos, reafirmaron su conviccion de que el proceso de negociacion impulsado por el Grupo de Contadora representa la genuina alternativa regional y el foro adecuado para la solucion de los conflictos que actualmente enfrentan.

Es, por lo tanto, indispensable que los estados centroamericanos continuen comprometidos en una seria y sincera gestion politico-diplomatica, con miras a la solucion negociada de la crisis centroamericana, fortaleciendo la voluntad de entendimiento y concertacion, con el debido acatamiento a los procesos e instancias de negociacion convenidos por ellos mismos que conduzcan a la concertacion de un tratado de paz regional.

Para el exito de esta gestion, resulta inaplazable la definitiva consolidacion de un regimen institucional que en lo interno garantice la libertad, la justicia, la democracia, y el progreso social, y que la promocion y mantenimiento de relaciones entre los paises centroamericanos se sujete a la observancia de los principios del Derecho Internacional que norman la actuacion de los estados.

Panama, 1 de Mayo de 1984
#1920n

DEPARTMENT OF STATE
DIVISION OF LANGUAGE SERVICES

(TRANSLATION)

LS NO. 112839
JF/MM
Spanish

Report

The Ministers of Foreign Affairs of Colombia, Mexico, Panama, and Venezuela, members of the Contadora Group, together with their colleagues the Foreign Ministers of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, met in Panama City on April 30, 1984.

The purpose of the sixth joint meeting of Foreign Ministers was to continue and broaden the diplomatic initiative aimed at

avoiding an increase in tensions and conflicts in Central America, creating the conditions needed for a stable peace, and fostering a climate of confidence, understanding, and cooperation among the countries of the region.

In accordance with their agenda, the Ministers received reports from the working commissions on political, security, and economic and social matters as called for in the document "Measures for Carrying Out the Commitments Made in the Document of Objectives," of January 8, 1984.

Over the past three months, the commissions have held four working sessions during which they analyzed various documents and the many proposals relating to the tasks assigned to each of them. Their work, carried out under the supervision of the Technical Group, has been highly satisfactory.

The Commission on Political Matters considered fully and with interest all proposals submitted to it. It divided its work into four broad areas, i.e., national reconciliation, human rights, the electoral process, and regional détente. Agreement was obtained on matters relating to the establishment of machinery for achieving and implementing a policy of détente based on confidence between states and leading to an effective reduction of political and military tensions. A consensus was also obtained on adopting measures aimed at establishing or improving institutions where representative and pluralistic democracy will serve as the foundation for full respect for human rights, with a view to promoting and implementing the national reconciliation process. Another result obtained was the agreement on criteria for ensuring the inviolability of life, liberty, and personal safety.

A consensus was also reached on the need to guarantee the stability and autonomy of the judicial authority to enable it to act unimpeded by political pressures. Recommendations were also made regarding free access to elections and the sharing of experiences and information between analogous organizations in the various Central American countries.

The Commission on Security reached agreement on various items on its agenda. The countries all concurred in the need to reestablish a climate of confidence, stability, and security in the region, and examined practical means of achieving this objective.

This commission agreed on important issues regarding legal principles in the area of security, specific measures for promoting cooperation, and banning the installation of military bases and any other type of foreign military interference.

A consensus was also obtained on the principles for an agreement to prevent the use of a territory by irregular forces acting against neighboring countries, as well as to prevent actions aimed at destabilization, sabotage, and terrorism. The commission also examined specific alternatives with respect to preventing and resolving border incidents.

There was complete agreement that foreign advisers should be withdrawn, although differences were expressed as to the best means of accomplishing this. The commission carefully considered the problems stemming from the arms buildup and established basic criteria for determining levels of military development in Central America and for defining the conditions for preparing a military inventory in the area.

Lastly, discussions were held on various proposals concerning the most effective means of verification and control, a requirement for the mechanism selected being its impartiality.

The Commission on Economic and Social Matters reached significant agreements with respect to its assigned tasks. It received valuable assistance in its work from various international and regional organizations. In addition to its own program, it held special meetings during which members heard the opinions of representatives from the UNHCR, ILO, PAHO, SIECA, CADESCA, BCIE, CPAO, and the UNDP. It formulated specific recommendations on economic integration, intra-regional trade, and technical cooperation; investments and financing; labor matters; and health. It examined as a matter of great importance the situation of refugees and, in that respect, the countries submitted various initiatives to be studied with a view to establishing a unified approach to this problem.

The Foreign Ministers stressed that the work of the commissions represented a significant contribution to the political and diplomatic negotiating process. They expressed their appreciation to the delegates and their satisfaction with the progress achieved. The work accomplished makes it possible to identify areas requiring additional efforts with a view to reconciling differences and, especially, applying a comprehensive approach reflecting the complexity and gravity of the various problems Central America faces today.

Following an initial exchange of views, each minister offered to undertake a thorough review of the materials furnished by the Technical Group and the Working Commissions. To facilitate the next phase of the process and aid the Contadora Group in fulfilling its conciliatory mission, it was agreed to arrange, systematize, and unify the documents furnished by the commissions with a view to submitting them in the near future to the Central American governments for their consideration. It was also determined that once the Technical Group had finished arranging, systematizing, and unifying the documents, it would examine recommendations and agreements, suggest procedures for establishing a consensus, complete the agenda, and draft the political and legal documents needed to conclude the agreements reached and establish mechanisms for implementing them.

The Ministers noted, however, that the progress achieved stands in contrast with the increasing violence, military and weapons buildup, and foreign military presence in the area, the most recent manifestations of which are a serious threat to peace and have justifiably alarmed the international community. As a result, the Ministers expressed the determination of their governments to intensify efforts aimed at preventing the outbreak of conflicts and facilitating dialogue and negotiation. They reiterated their unwavering commitment to a peaceful solution to the problems of the region and again urged countries with ties to and interests in the area to lend their staunch support to efforts aimed at achieving détente, peace, and genuine cooperaton in the region.

The Foreign Ministers of the Central American countries reaffirmed their conviction that the negotiating process advanced by the Contadora Group constitutes a genuine option for the region and is an appropriate forum for resolving their present conflicts.

It is therefore imperative for the Central American states to remain committed to a serious and sincere political-diplomatic effort to resolve by negotiation the crisis in the region. The desire for understanding and cooperation should be reinforced, with due respect for the negotiating processes and mechanisms they themselves have agreed upon as the means of obtaining a coordinated regional peace treaty.

The success of this initiative depends on the establishment once and for all of a consolidated institutional system that guarantees freedom, justice, democracy, and social progress in the area, and in which relations between the Central American countries are fostered and maintained based on observance of the principles of international law governing the conduct of states.

Panama City, May 1, 1984

No. 1920n

CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

Senator DeConcini: In reading about Central America, I was impressed by the possibility that there may be more regional institutions per capita in the Central American and Caribbean area than anywhere else in the world. Given this, how does the Central American Development Organization (CADO) as proposed by the Kissinger Commission improve upon the regional institutions already in existence in the area?

Mr. Dam: CADO, as proposed in the President's Central America Democracy, Peace and Development Initiative, would give a dimension to the development and management of economic development not now provided by Central America's regional institutions. Unlike these institutions, CADO would be a multilateral organization devoted to the facilitation and coordination of the several economic development efforts of bilateral donors in Central America. Participation in CADO would be open to all bilateral donors to the region, as well as to those Central American countries that commit themselves to maintaining or making progress toward human rights development, building democracy and encouraging economic growth through policy reform. It would include representatives from both the public and private sectors, including labor and business.

CADO would not be a lending institution such as the Central American Bank for Economic Integration, but would monitor and evaluate bilateral assistance programs, and make recommendations on political, economic and social development objectives, mobilization of resources, and economic policies and structures and evaluate country performance and progress in meeting these objectives. Ultimate control of bilateral assistance funds would remain with the bilateral donors, but disbursement of a certain portion of such assistance would be deferred until the donor and CADO both approved. In the case of our aid, we have proposed in our legislation that 25 percent of the economic assistance funds allocated directly for each Central American country would be subject to this joint approval provision.

CENTRAL AMERICAN REACTION TO CADO

Senator DeConcini: What has the reaction of the Central American nations been to the proposed formation of CADO?

Mr. Dam: Reaction to the Kissinger Commission recommendation and to our legislative proposal has generally been positive. The principles expressed by the Commission in recommending the establishment of CADO have been subsequently reflected within the 21 points agreed to by the Central Americans in the Contadora process, and in discussions among the countries concerning regional cooperation. A major area of uncertainity remains the role, if any, of Nicaragua in CADO.

CENTRAL AMERICAN REGIONAL AID

Senator DeConcini: CADO represents what might be termed as a regional approach to Central America in contrast to the nation-by-nation approach which characterizes much of our aid to the region. Why isn't this regional approach applied to a greater degree to other problems which clearly cut across national boundaries such as humanitarian needs and displaced persons and refugees?

Mr. Dam: Regional programs have always been an important part of our assistance strategy in Central America. In instances where development objectives and/or the involvement of regional institutions make more appropriate a regional rather than bilateral approach, effective programs have been implemented under the direction of USAID's Regional Office for Central American Programs (ROCAP), located in Guatemala City. Our legislative proposal includes a number of programs of regional scope, including funding to help revitalize the Central American Common Market (CACM), an increased contribution to the Central American Bank for Economic Integration, establishment of a regional venture capital company to stimulate additional domestic and foreign investment. ROCAP also supports research, development, and service efforts by regional technical institutions on development problems which are common to Central American countries. Examples are projects in regional watershed management, regional pest management, small-farmer production systems, and a project now in the planning stage to improve oral rehydration therapy programs.

In the case of refugees and displaced persons, we have placed major emphasis on the internationalization of all such programs to ensure that the burden is distributed as equitably as possible. We operate through experienced international organizations: UNHCR for coordination of relief efforts for refugees throughout the region and the ICRC, particularly for assistance to people in areas in conflict in El Salvador. Many of our bilateral programs are directed to activities essential to the well-being of refugees and displaced persons: public-works employment, self-help economic projects, health care, environmental sanitation, food supply and nutrition improvement. We do coordinate such bilateral programs to prevent duplication of efforts and to take into account, as appropriate, the regional nature of the problems.

MISUSE OF U.S. ASSISTANCE TO EL SALVADOR

Senator DeConcini: Not long ago we heard reports in the media of widespread misuse of our El Salvadoran aid dollars. What are the controls and monitoring devices that we use to prevent such abuse? Has our monitoring increased in light of these charges and in light of the April 1983 AID Inspector General's report?

Mr. Dam: Media critics have indeed charged that abuses of United States economic assistance to El Salvador are widespread. Sensational, misleading reports have claimed extensive mismanagement and corruption. In many instances, journalists purport to base their allegations on audits conducted by the Agency for International Development's Inspector General, and on studies financed by A.I.D. In general, these stories exaggerate or distort findings, and do not acknowledge U.S. and Salvadoran efforts to maintain and improve controls over U.S. funds.

A.I.D.'s field staffs work closely with Salvadoran officials to design and implement projects directed toward mutually agreed objectives. Control and reporting responsibilities are built into each project. Major emphasis is placed on improvement of management and financial control systems within Salvadoran Government agencies. Performance is reviewed by the A.I.D. Mission staff, locally contracted audits, independent evaluations performed by contract firms, and audits by the Inspector General. This process seeks out problems, analyzes their causes, and makes specific recommendations for correction.

A.I.D. and Salvadoran officials have acted promptly on recommendations in order to strengthen overall program management. For example, four I.G. reports on projects in El Salvador and Honduras were cited by a New York Times article of February 20 as evidence of management problems in these countries. In El Salvador, subsequent management actions to improve operations have been acceptable to the I.G. on over 90 percent of the recommendations. Work is under way to satisfy the remaining suggestions.

The April 1983 I.G. report you mentioned covered our balance of payments support program with El Salvador's Central Bank. The review showed three areas in need of improvement, and made two specific recommendations. Action has been taken to follow the I.G.'s findings and to make the necessary improvements. A major step was to contract with an independent consulting firm, Arthur Young and Company, to study the Central

Bank's management of foreign exchange, and to provide advice on how the unusual demands on the country's banking and foreign exchange systems could best be met. Based upon the I.G.'s recommendations and the Arthur Young report, the Central Bank has taken constructive action to make foreign exchange allocations more timely and objective, and to strengthen controls against abuses. The Bank's price checking unit has been increased to thirteen persons, and U.S.-financed technical assistance will be contracted shortly to further strengthen that unit's operations.

We are continuing to improve our control over assistance to El Salvador. For example, as food commodity assistance is increased, A.I.D. is making increasingly greater use of locally contracted food monitors and audit firms to assure that such assistance reaches the intended beneficiary groups and to protect against potential misuse. Because of the importance of the Inspector General's audits to control and monitoring, A.I.D. is planning a substantial increase in audit staff to work in Central America. Also, including recent assignments, we plan to increase U.S. direct hire staff assigned to El Salvador by more than 30 percent over 1983 levels.

DIRECT AID INVOLVEMENT IN PROMOTING EQUITY AND SOCIAL DEVELOPMENT

Senator DeConcini: In my review of the recommendations of the Kissinger Commission Report on Central America, I was impressed by the relative lack of emphasis on the traditional relief and development assistance objectives that would seem to be so relevant to the economic and social conditions of Central America. In investigating why this is so, I find that the bulk of the humanitarian assistance now provided on a person-to-person basis through our aid programs in Central America is conducted by private volunteer organizations and cooperative organizations. Such groups as CARE, Save the Children, and Catholic Relief Services do a great deal of the field work that is accomplished as a part of our aid programs. These private organizations do an admirable job and their participation in our aid program is important to its success.

At the same time, Mr. Dam, I wonder whether there should not also be more direct and extensive involvement by USAID personnel in addressing the serious social deprivations which exist so widely in Central America, and which are so obviously a contributing factor to the unrest present throughout the region. Should not more individual Americans, who are part of the U.S. government and direct representatives of it and its people, be in the field on a daily basis to conduct development assistance programs?

Mr. Dam: We fully agree that social and economic development which benefits the large number of low-income and disadvantaged people in Central America must be a main-line effort of our assistance program for that region. We have tried to make this emphasis quite explicit in our plan to implement the recommendations of the National Bipartisan Commission. Of the requested $6.3 billion total in appropriated funds, we propose the use of $1.7 billion in dollar funds to promote equity and broad participation in development. In addition, approximately $1.2 billion in local currency counterpart funds from ESF and P.L. 480 assistance would be dedicated to social and economic development directed to low-income people. For your reference, I have attached the relevant pages from our FY 1985 Congressional Presentation which describe in some detail our objectives and proposed programs under the heading Equity and Participation in Development.

The bulk of this assistance will be channelled through government service and outreach programs, with direct involvement by personnel of our A.I.D. Missions in program design, implementation, monitoring, and evaluation. We will also, as you noted, finance companion efforts in social and economic development by private voluntary organizations. Further, we plan to make more effective use of private sector resources and administrative capabilities to increase economic opportunity and provide social services for low-income people.

SOURCE: A.I.D., Congressional Presentation
Fiscal Year 1985, Annex III
Latin America and the Caribbean, Vol. II

- An Economic Assistance Program
  for Central America, pages 16-18

C. Equity and Broad Participation in Development

The third element of the strategy -- to be pursued in those countries where the restoration of satisfactory economic growth is not an adequate answer to the development problem -- is a longer term development program aimed at improving the quality of life of less advantaged groups. Access to employment and other sources of productivity growth, such as modern agricultural technology and improved inputs, have already been mentioned above because they provide a means of achieving equity goals in a manner that also stimulates rapid economic growth.

Altogether, we propose a total of $3.1 billion in assistance in direct support for our equity goals. This figure includes $1.7 billion in dollar funds appropriated for this purpose (including $1.4 billion in DA, $0.1 billion in P.L. 480 Title II commodities, and $0.2 billion in programs administered by the Peace Corps and the State Department), $0.2 billion in Housing Guaranty funds, and $1.2 billion in local currency counterpart funds from ESF and P.L. 480 assistance provided for balance-of-payments support. In addition, the $3.9 billion provided to support long-term growth could be included in this category because it supports the productive jobs and increased incomes that are the most powerful vehicle in the long term for meeting basic needs.

The principal direct equity-oriented measures being supported include the following:

1. Education. Illiteracy is still a serious problem in most of the countries of the region, and limited access to primary education, particularly in rural areas, is creating a

new generation of illiterates. We propose a major program of support for educational activities in the region, including primary education, substantial expansion of skills training and vocational education, and higher education in the United States. At the primary level, we propose to expand access to the system to nearly 100% of the school-aged population and to increase the relevance and quality of the education to reduce grade repetition and dropouts. Major program elements will include school construction, teacher training, and production and distribution of textbooks and educational materials. The efforts in the literacy field will include both support for indigenous public education institutions and for use of Peace Corps volunteers to supplement their efforts.

We also propose to provide 10,000 scholarships over the next five years for study in the United States. We have found that those Latin American government officials who are most effective in promoting development in the region and in promoting democratic values are quite often the product of past U.S. Government-financed participant training. Moreover, scholarships to communist-bloc countries are apparently available in much greater number than those for U.S. study. In some countries, this had led to cadres of bloc-trained professionals in government ministries. Our scholarship assistance will address this challenge, in addition to augmenting the number of high-level professionals necessary for the accelerated development effort and to increasing the understanding by Central Americans of U.S. values. The scholarship program will be administered by A.I.D. and the United States Information Agency (U.S.I.A.).

2. Health and Nutrition. We will support increased action to improve health conditions, particularly in rural areas, where government programs are clearly inadequate at present. Increased efforts to control malaria and other vector-borne diseases, dissemination of oral rehydration therapy, and training of nurses and other health workers will be major elements of our program. We will address nutrition issues through an expansion of our technical assistance and education efforts, as well as through an expansion of our food aid programs. The Peace Corps will cooperate in implementing our health and nutrition programs, and U.S.I.A. will help in translating and disseminating educational materials.

3. Family Planning. Despite a significant reduction in birth rates in Central America over the past decade, the rate of population growth in Central America remains around 3% per year. Such high growth rates strain countries' capacities to provide adequate nutrition, education, health care, and employment opportunies for their populations. In addition, increased population pressures on limited natural resources have resulted in serious soil erosion and other environmental degradation in many areas. Access to contraceptives and to accurate family planning information is essential if poorer people are to have the opportunity to limit family size. Studies have shown that lack of information is an obstacle to increased contraceptive use, and that young children in large poor families in the region tend also to suffer from

malnutrition. We will continue our progams in this area, with particular emphasis on working with private institutions.

4. Access to Land. Improved access to land may be the most rapid way to provide opportunity to poor groups in some of the countries of the region. Colonization of new lands can provide part of the solution, but some form of land reform may be a necessary element of a program in this sector. This would be the case particularly in Guatemala where access to land in the central highlands, where the bulk of the Indian population lives, is a severe constraint to improved living standards. Our program will support efforts to increase land availability for poor rural families through support for colonization, through legal reforms needed to increase security of land titles, and through long-term financing for land purchase.

5. Shelter. Much of the population of the isthmus lives in substandard housing which lacks water, sewerage and electricity services. Although remedying this problem will require both decades and massive financial resources, we can make progress through support for institutional improvements in housing finance mechanisms and by innovative programs such as "sites and services" projects that can mobilize the labor resources of beneficiary families at low cost. Our Housing Guaranty program will be used to channel private funds toward the solution of the severe shortage of low- and moderate-income housing while it generates substantial employment.

6. Refugees and Displaced Persons. The tragedy of forced dislocation due to political violence has exacerbated the poverty of many Central Americans. In some cases this had led to the spillover of migrants to other countries, including the United States. In El Salvador and Guatemala it has resulted in the internal dislocation of hundreds of thousands of people now living in deprived circumstances. We propose to expand our program of assistance for displaced persons to meet their cash income, health, nutritional, and educational needs in the near term and to assist in relocation or return to their homes as conditions permit. The State Department will be responsible for administering the refugee program, while A.I.D. will assist the displaced persons.

SUBCOMMITTEE RECESS

Senator KASTEN. I would like to thank you for your testimony this morning.

This concludes our hearing for today. We look forward to working with you on the problems facing Central America.

[Whereupon, at 11:50 a.m., Wednesday, May 23, the subcommittee was recessed, to reconvene at the call of the Chair.]

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